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MARKETS OF THE UNITED STATES

The Annals

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FOREWORD

DURING the past ten years, more has been written about foreign trade, perhaps, than any other single subject. In the United States the discussion has centered about the overnight change from a debtor to a creditor nation, the startling changes to be expected in the relative volume of exports and imports, and the various effects of debt repayment by foreign countries. Time after time we have been told that international debts can be paid only in goods and services, and that our new creditor status will likely result in a flood of merchandise imports in excess of exports. The unusual emphasis placed on such points has had the very desirable result of impressing them indelibly on the public mind, but the very vehemence of the discussion has tended, through its overemphasis, to create the impression in some quarters that export trade is no longer important nor desirable. Such, of course, is not the case, either from the standpoint of the individual exporter, or the nation as a whole. To the exporter the foreign trade market is apt to appear merely as an additional market to increase sales, and thereby permit large-scale production, or as an outlet in times of emergency for surplus stock which cannot be disposed of at home. Although domestic consumers may benefit appreciably by this practice because it permits the same producers to sell at lower prices in the United States, the real gain comes to the nation as a whole, for to the nation as a whole exports provide a means of securing the largest amount of satisfactions with the least expenditure of effort—a result which is accomplished by exchanging domestic goods produced with great efficiency for those produced at great advantage in foreign

countries. Exports are, in reality, the price paid for imports, therefore the nation should be as vitally interested in its exports as the individual is in his expenditures.

During the war, many revolutionary changes occurred in foreign trade. While some of these rested on fundamental factors such as technical changes in manufacturing methods, greater industrialization of certain sections, or opening up of new sources of raw materials, others were directly traceable to disturbances created by the war and were destined to disappear with the return of peace. Enough time has now elapsed to permit an analysis of these changes and a sifting of the temporary from the permanent. Accordingly the attempt is made in this volume to show the present status of our export trade and to discuss the influence of various government policies on such trade. We have preferred to show the present status by a consideration of individual commodities, and have selected for special treatment not only those that have been most important in point of value, but also those that seem to present some special problem, such as foreign competition, or those that have shown very rapid growth in recent years.

If we are to have a definite national policy toward export trade it can be formulated only after answering the following questions: What are our leading exports? Why do we excel in the production of such goods? What proportion of our production is sold abroad? Is the demand merely temporary, or is it apt to be permanent? What obstacles are encountered in selling these goods abroad, and what is the source of greatest competition?

It has not been possible in all cases to secure answers to these questions, but in so far as it has been done, the task of formulating a national policy is made easier.

In discussing the relationship between government action and markets, the attempt has been made to keep three questions foremost: What is now being done by government along particular lines, such as the tariff, information service, etc? What is the effect of such action on export trade? How should the present policy be changed? Although there is much room for disagreement on the second and third points, it is believed that the presen-

tation of the facts with respect to the first query will be of considerable aid in answering the others.

Acknowledgments for assistance in the preparation of the volume are due particularly to Dr. Clyde L. King, editor of *The Annals* of the American Academy of Political and Social Science; Dr. Julius Klein, Dr. E. Dana Durand and Dr. Thomas R. Taylor, of the Bureau of Foreign and Domestic Commerce; Dr. Harry T. Collings and Dr. S. S. Huebner, University of Pennsylvania; and also to those who have contributed the various articles.

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The Economic Significance of Foreign Markets and Their Relation to Public Policy

By RAYMOND T. BYE, PH.D.

Professor of Economics, University of Pennsylvania

IN considering any economic phenomenon, or any question of public policy, it is important to distinguish between the interests of particular individuals or groups, and those of the nation as a whole. It might be thought that what is good for any one class in the community must also be good for the community at large, since each one of us is a part of the whole; but such is not necessarily the case. It may be good for the holders of railway stocks that railroad rates should be very high, but this would hardly be beneficial to the rest of the community; and a destructive earthquake gives lucrative business to contractors and builders, but it is a great disaster to other citizens. It behooves us, therefore, to view the interests of society at large in the broadest possible way, if we are to come to correct conclusions about any economic matter.

It is particularly difficult to maintain this disinterested and broad viewpoint in considering questions of international commerce, because the phenomena of foreign trade extend over so wide a region, and are so intricate, that they can easily be misunderstood and confused. Hence popular notions on the subject are filled with misconception and error, and national policies are frequently ill-advised. It is generally admitted, for instance, that the protective tariff duties which have long prevailed in the United States have been levied not so much upon considerations of national welfare as upon the pressure exerted on congressional committees by influential business

interests. We must avoid a confusion of private with public gain if we are to appreciate justly the significance of foreign markets to the people of the United States. It is apparent that if an American producer can find new opportunities to dispose of his wares abroad, in addition to the sales he can normally expect to domestic consumers, his prosperity will be increased by such expansion. But the gain to a nation from its foreign commerce is neither so direct nor so obvious as this, and can be understood only after careful analysis.

Unfortunately, popular thinking, as well as that of many of our leading statesmen, is still clouded with the Mercantilist doctrine that the gains from international trade consist mainly of monetary profits. According to this way of thinking, the advantage derived by a country from its commerce with other countries is to be measured by the excess of its exports over its imports, the difference being the nation's profit. Such an excess is therefore regarded as a "favorable" balance of trade, as distinguished from an excess of imports, which is thought to be "unfavorable." It would follow from this reasoning that the main function of export markets, from a national point of view, is to establish such a "favorable" balance, in order that the nation's profit might be as great as possible. It would be wise policy, therefore, to expand foreign markets in every direction, and governments would be warranted in taking energetic measures to encourage such expansion

of exports, while discouraging the importation of goods from abroad. Such, to a considerable degree, has been the traditional policy of the American government, and it appears to be the policy of the present administration.

Every economist understands that such is not the real nature of the gains from international trade, and that the establishment of an excess of exports over imports is not normally the reason why foreign markets are desirable. The main advantage of international trade to a country consists in the fact that by trading its products for those of other countries, it can get more of the latter than it would be able to produce for itself. Thus the really useful contribution of foreign markets to our welfare consists in the fact that they give to us a means of buying foreign merchandise of which we are in need. The advantage of our exports is to be measured, therefore, not by their excess over imports, but by the amount and character of the imports which they bring to our shores. Further analysis of the nature and mechanism of international trade will help to make this clear.

Modern industry is characterized by the principle of division of labor, a principle which is world-wide in its scope. Some persons are qualified to do one thing, some another. It has been found that if each one specializes on his particular product, then exchanges it for the products of his fellows, the wealth of all is promoted. So the bricklayer lays bricks day in and day out, and sells his bricks for money; then with the money he purchases clothing, food and other commodities which other specialists, meanwhile, have been making for him. It is a process of exchange. In this way he gets more and better clothes, meat, vegetables and so on than he could possibly have produced for himself; and no one

would seriously propose the abolition of this system of specialization and exchange for the more primitive industry where each household was independently producing everything which it needed to consume. Likewise it is found that some nations are better fitted, because of their climate, resources, or the character of their people, to produce certain articles than others. The coal and iron deposits of the United States, coupled with the inventive genius of our people, make us superior in the production of certain manufactured goods, such as agricultural machinery. On the other hand, the people of China are in a better position to produce silks than we. It is to the advantage of both countries that we should exchange our machinery for Chinese silks. Thus a trade in these commodities has sprung up between the two nations. The significance to the United States of her market for agricultural machinery in China, therefore, consists not so much in *the sale of the machinery* as in the fact that it provides *a means of purchasing the silk*. This illustration is typical of international trade the world over. Each country concentrates on its specialties, which it exports in return for the specialties of the others. The exports of each are the means of purchasing its imports. Each sells in order that it may buy.

The mechanism by which this exchange is effected can be described by pursuing the agricultural implements and silk illustration a little further. Suppose that the American manufacturer has sold agricultural machinery to a Chinese importer of such goods to the value of \$25,000. How is the American to receive payment of this sum? The usual way is for him to draw up a bill of exchange, which is simply an order upon the Chinese debtor to pay the amount due, on thirty days' notice,

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or at whatever time has been mutually agreed between them. The American can sell this draft to a banker or broker whose business it is to deal in foreign exchange. The latter pays him for it at once, and the American has his money. He may not get quite as much as the full face value of his draft, for bills upon China may be selling at a slight discount, or the dealer may charge a small commission for his service in disposing of it; but the exporter is willing to accept a little less than \$25,000 to avoid the trouble and expense of having to collect the money in China and transfer it to the United States. Why does the banker or broker buy the draft? Not for the purpose of collecting the money in China and bringing it to the United States, but in the expectation of selling it to some one who has payments to make to that country. There may be, for instance, an American importer of silks, which, to make the illustration as simple as possible, may also be assumed to have a value of \$25,000. This importer is seeking some means of remitting that sum to his Chinese creditor. The foreign-exchange dealer has a draft for that amount, payable in China. He sells it to the importer, at a very small profit, who sends it to the Chinese silk exporter from whom he purchased his goods. The latter, acting probably through his bank, can now present it to the Chinese importer of machinery upon whom it was originally drawn, and receive his money. Now both the American importer and the Chinese importer have paid their debts, and the exporters in both countries have received what was due them; yet no money was actually shipped between the two countries. Through the mechanism of the foreign-exchange markets, the goods we imported from China were offset against those which we exported, and the debts were thereby cancelled. Thus our exports of

machinery furnished the exchange with which we paid for our silks. We purchased our imports with our exports.

This is typical of the trade between nations in all commodities the world over. The transactions are not always quite so simple as the one which has been described, but the principle is the same. Sometimes the bankers who purchase the foreign drafts send them at once to their correspondent banks abroad, which collect the sums due from the drawees. The original bank then has deposits to its credit in a foreign bank, upon which it can draw its own bills as needed and sell them to importers who wish to remit sums to their foreign creditors. Sometimes the offsetting process is triangular, involving three or even four countries. The United States, for instance, pays for coffee which she imports from Brazil by means of manufactured products which she sells to England, England, in turn, using the credits she obtains from the sale of goods to Brazil to offset her debt to the United States. However, no matter what form the mechanism of international trade may take, nor how complex the transactions may be, the process proves, upon analysis, to be an exchange of goods for goods, in which the actual movement of money plays a very small part. Bills of exchange constitute a sort of international currency, and the foreign-exchange markets a kind of clearing house, by means of which money payments are avoided, and goods are offset against goods.

This principle applies not only to the material commodities which enter into international trade, but also to services. For instance, each year a large number of American tourists go journeying abroad, and in their travels they purchase hotel accommodations, buy railway tickets, hire guides, and so on. How do they pay for them? Usually, before leaving the United

States, they make arrangements with some bank or express company for letters of credit or travelers' checks, which they can cash upon presentation at certain banks or other financial offices in Europe. These letters of credit or travelers' checks are simply foreign drafts, similar to the bills of exchange already considered. The American banks which sell them have established credits in foreign banks through the previous purchase of ordinary commercial bills of exchange on the foreign countries, and it is against these credits that they draw in furnishing funds to the tourists. Since the credits were created in the first place by the sale of American goods by some exporter to a foreign buyer, it appears that the travelers are really paying for their pleasure trip abroad by American exports furnished to Europe. Europe's services to our travelers are being offset by our sales of merchandise to Europe. Likewise, when Americans buy marine insurance from an English company, such as Lloyd's, they pay for it in bills of exchange created by our sales abroad; and if we carry merchandise for foreigners in American merchant vessels, they pay the American line in exchange created by the sale of some goods to this country.

It is the same with international debts. Suppose that American capitalists are investing their funds in a Bolivian oil development project, a kind of transaction which is often referred to as the "exportation of capital." How is this "capital" "exported?" What happens here is that the American buys the securities of the foreign oil company from an American underwriting syndicate. This syndicate of bankers then has funds to remit to Bolivia, which it will do by purchasing foreign exchange, either on Bolivia or on some country, such as England,

to whom Bolivia owes money, and to whom, therefore, Bolivia would be glad to remit the bills. This means that the American loan of funds (investment) to Bolivia took the form of goods exported to her or to some other country, again showing that international trade is fundamentally an exchange of goods. In this case, however, the connection between investment abroad and the exportation of merchandise might be even more close than has already been indicated. The Bolivian oil company, probably, would need certain machinery and supplies, such as derricks, drills, pipe, steel tanks, tank cars, steel rails, etc., which could be most readily secured in this country. Then the American underwriting syndicate, upon the sale of the Bolivian securities to investors, instead of remitting exchange to Bolivia, would simply establish credits here upon which the Bolivian company could draw. The company would thereupon use these funds for the purchase of the needed supplies from American manufacturers. Our investment in the Bolivian oil project would then literally take the form of a direct exportation of material capital to that country.

Suppose that, after the passage of some years, the Bolivian development having proceeded to the point where it is making profits, dividends must be remitted to the American investors. This time bills of exchange would move in the opposite direction, the Bolivian company finding it necessary to purchase American exchange in the foreign exchange market. These bills of exchange would probably have been created by Bolivian oil shipped to foreign purchasers, thereby giving the Bolivian sellers the right to draw on foreign debtors. Thus the Bolivian payments to the United States would take the form of oil exported to us, or to some other part of the world. Many

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other examples of international transactions could be cited, but enough have been described to make clear the mechanism of exchange between nations. It should now be clear that this mechanism is essentially the same no matter what the particular international transaction involved may be, and it involves always the principle that payments between nations take the form of goods—*i.e.* of commodities and services—through the offsetting of bills of exchange.

If a country's imports and exports of merchandise and of services were always exactly equal, they could entirely be offset one against the other in this way, and the mechanism of exchange would suffice to make all the payments required, without the use of any money at all. But a situation may arise—indeed, it is continually arising—in which there is a balance on one side or the other. At one time there may be a surplus of exports, at another an excess of imports. In this case the offsetting mechanism cannot clear the market, and money payments may then be resorted to. Suppose, for instance, that the United States exports of commodities and services combined exceed her purchases, and exceed any sums payable abroad on account of new investments, interest on loans, or other items. In such a case, American exporters will have more bills of exchange for sale than buyers of them require. Such an oversupply of foreign exchange will cause its price to fall. A £1000 draft on England, for example, which ordinarily would be worth about \$4866, would then drop in value to say \$4850, and foreign exchange is then at a discount. Now if this condition continues for any appreciable length of time, holders of exchange will be unable to dispose of their drafts through the usual channels without making the price so low as to incur considerable

loss. Rather than do this, they will send their drafts abroad for collection, cash them in foreign gold, bring the gold to the United States, and have it coined into dollars. Thus gold will flow into this country to settle the balance. As this gold finds its way into our banks, according to the prevailing economic theory, it will cause more currency to circulate, and this increase in currency will cause our prices to rise; for when people have more money to spend, and no more commodities to spend it on than before, each commodity will exchange for more dollars than previously. But this is a condition which would not be likely to prevail for very long. As our price level got higher, our products would become more and more expensive for foreign buyers, and they would not find it advantageous to purchase as much of them as before. Our exports, accordingly, would tend to decline. On the other hand, as our prices rose, foreign prices would be relatively cheaper for us, and we would buy more goods abroad. Our imports, therefore, would tend to increase. This decline of exports and increase of imports would go on until the equilibrium between them was restored. The two sides of our international account would then balance, imports would just pay for exports again, and the movement of gold into this country would cease. Suppose, on the other hand, that we had an excess of imports, instead of exports. In that case the demand for foreign bills of exchange with which to make payments abroad would exceed the supply of them, and their price would rise until it became cheaper to make remittances in gold. Gold would flow out of the country, and prices would fall until foreigners found our market a cheap one in which to buy, while foreign markets would become relatively dearer for us. Exports would then increase, and imports

would fall off until equilibrium was restored. Again gold would cease to flow, and imports would pay for exports as before.

It appears, then, that there are certain forces of international trade at work, whose normal operation is to bring about an equilibrium of the imports and exports (of commodities and services) of each country. This serves to reinforce the statement already made, that the principle function of foreign markets is not to make profits for American business men, nor to bring money into this country, but to bring in goods which we can procure to greater advantage abroad than at home. It reveals clearly, also, the fallacy of the Mercantilist doctrine, for it demonstrates the undesirability and even the impossibility of maintaining continuously a balance of trade that will bring money into a country. If we sell annually to other nations more than we buy from them, money will flow in for a time, it is true; but of what use is this money? Money is not good to eat, we do not wear it, nor make any *direct* use of it. It is valuable to us only when we exchange it for other things. If we accumulate a large quantity of money in our country, it merely raises our prices, without increasing our wealth, and the only useful thing we could do with such a surplus of it would be to buy things with it abroad. If we import commodities, however, instead of money, we increase our wealth with each new good that comes to our shores, and that is to our manifest advantage.

This summary of the principles of international trade reveals that exports are of no more importance to a nation than imports. Both are equally significant, for neither one is possible, in the long run, without the other. If it is wise policy to encourage exports, therefore, it is equally wise policy to encourage imports, for an increase in

either one should lead to an increase in the other. But it is ordinarily unwise and disadvantageous to seek to promote the one while seeking to restrict the other. To a certain extent the international trade of the world can be depended upon to seek its most economical channels, to the mutual advantage of all nations concerned, without any particular encouragement or intervention by governments. If the United States can produce steel rails more efficiently than other countries, that fact will become apparent through the greater cheapness of our product, and foreign railway executives, seeking to equip their lines at the least possible expense, will naturally come here to buy. These purchases will create, in this country, a supply of exchange on the foreign country which will encourage imports into the United States from it. If there is some product which it can produce more cheaply than we, the imports will naturally take that form. So, in our trade with all nations, each, seeking its own economic advantage, is led to produce that in which its productive resources are most efficient, and to buy from the other those things in which they are more efficient than it. Each gains by that specialization.

It does not follow, however, that governments may not wisely take measures to promote such exchange. The restrictions placed on the free movement of international trade by some governments, through protective tariffs, bounties, embargoes and other measures, interfere with the interests of other nations. It may therefore be advisable for other governments to seek peaceable means whereby such restrictions may be mitigated or entirely removed. Moreover, there may be obstacles of another sort to the free movement of goods which governments may help to clear away. The ignorance of

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Americans about opportunities in foreign markets, and of foreigners about opportunities in our markets, may prevent the most economical flow of trade. Hence the use of the consular service, and the efforts of departments of commerce or other agencies to disseminate trade information, may be of great value. But in taking such steps, governments should bear in mind that international trade is reciprocal, and that a nation cannot sell if it will not buy. There is danger that every effort will be made to encourage exports, while imports are not encouraged, or are even restricted.

Such is exactly the policy of the American Government at the present time. Our Department of Commerce, along with some excellent activities, is giving every assistance to American exporters in extending their markets abroad. One of the chief duties of our consuls in foreign lands is to supply information regarding opportunities for the sale of American products in the countries where they are stationed. From time to time Congress establishes such organizations as the Grain Export Corporation, whose purpose is to facilitate the disposal of surplus American products in other parts of the world; and other projects of similar sort are agitated from time to time, as in the McNary-Haugen bill recently before Congress. At the same time, we are now maintaining the highest protective tariffs in our history. The avowed object of such tariffs is to hinder the importation of foreign-made products into the United States. Our Department of Commerce and our consular service are not making efforts to show American business men how they may *buy* to advantage abroad, and, were they to do so, the probabilities are that the officials responsible for such activities would speedily lose their jobs. In other words, our government, and the

public generally, are still largely imbued with the erroneous principles of Mercantilism. This policy is very closely akin to the effort to lift one's self by his bootstraps. It is impossible of successful accomplishment. If we endeavor to promote exports actively while at the same time restricting imports, the ultimate result can only be to check the exports, because of the lack of means to buy our goods on the part of the foreigner. He cannot purchase from us unless he pays in merchandise or in gold. If we do not, by our purchase of his wares, furnish him with a supply of exchange on the United States with which he can pay for our goods, he must make the payment in gold. If he pays in gold (of which we already have far too much in this country) our bank reserves are inflated, credit expands, prices rise, and our goods become increasingly expensive for the foreign buyer. Thus our export markets tend to be restricted by our high price level.

So far the discussion has dealt with normal conditions, and has set forth the principles of international trade which apply generally to the commercial relations among nations. But conditions are frequently abnormal, and particularly so since the great disturbances of the world's economic life occasioned by the recent Great War. Circumstances may and do arise, for instance, where it is particularly urgent for a country to develop its exports. The development of foreign sales markets then becomes of paramount importance. Such a situation confronts a number of the countries of Europe today. Germany is in the position of having to make heavy reparation payments to the Allied nations, especially Great Britain and France. Great Britain, France, Italy, and some other countries are similarly in a position where they must make substantial pay-

ments of interest and principal on their debts to the United States, which arose through the huge loans we made to them during the war. These payments must be made in the same way as payments arising through the usual course of trade, as previously described in this essay. The sums are too large to be made in gold; they must be made in goods, or in services. To pay France, Germany must be able to buy French exchange. A supply of such exchange can come only from German merchants who have sold goods to France (or to some other country which in turn has sold goods to France), and who are therefore in a position to draw upon their French debtors. Thus the reparation payments will take the form of commodities and services exported from Germany. Similarly, the Allied countries can pay interest to the United States only by securing a supply of bills of exchange on the United States, which bills arise through the exportation of goods to us or to some other countries, such as those in South America, which in turn ship goods to us. Consequently, the ability of the European countries to pay their debts and restore their credit in the financial markets of the world depends on their finding markets abroad for their exports. On the other hand, the importation of goods by such countries is an obstacle to the payment by them of what they owe. Such imports create an additional demand for the much-wanted foreign exchange, and embarrass the governments in their efforts to find means of paying their debts abroad. It is only by maintaining a large *surplus* of exports over imports that the payments can be made. It is sound policy for such governments, therefore, to encourage the development of foreign markets by all suitable means, in order that exports may increase, and to restrict imports as much

as possible by the imposition of protective tariffs and similar measures.

But these considerations do not apply to the United States at the present time. We are not in the position of having to make large payments abroad, but of having to receive them. These receipts must take the form of commodities purchased by us from abroad, or of services sold to us by foreigners. If we are sincere in our avowed intention to collect the interest and principal on our loans to Europe, therefore, we should encourage imports and discourage the expansion of our foreign sales markets as much as possible, instead of pursuing the exactly opposite policy, as we are doing at present. If we are not willing to accept the imports, we should not attempt to collect the debts.

There are other circumstances in which export markets become of particular significance in a nation's international trade. One such case is where a country is in the early stages of foreign investment. When a country is accumulating a considerable surplus of capital, and the rate of interest within its borders is on that account relatively low, it is likely to seek opportunities for investment in other parts of the world, where industrial development has not proceeded so far, where capital is scarce, and where the opportunities for a larger interest yield are therefore more promising. It has already been shown that such foreign investment necessitates payments to foreign countries, which payments create a demand for foreign exchange, and stimulate the exportation of merchandise. Such an "immature" creditor nation, as it is called, consequently will normally have an excess of exports over imports, or a so-called "favorable" balance of trade. The export surplus, in this case, represents the net amount of its foreign investments. In such a case, foreign markets for the products of the country

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concerned assist the process of investment materially, by supplying the exchange with which the payments abroad can be made. During this "immature" lending period, therefore, export markets are of more significance than purchase markets. After the process of investment has gone on for a considerable period, however, such a nation passes into the position of a "mature" creditor. By this time its foreign investments have begun to yield substantial returns, and the annual receipts of interest and dividends, coupled with amortization of the original capital, cause the incoming payments to exceed the annual new investments. These incoming payments, the reader will now understand, take the form of goods. Hence there is a tendency toward an "unfavorable" balance, in which the imports exceed the exports. The situation is not, in fact, disadvantageous, but quite the reverse; for the country is now receiving an annual increase in wealth, in the form of goods, which increase is the fruits of its past investment. In such a case, of course, export markets are of less concern, so far as its foreign loans are concerned, than imports; for the receipt by the investors of the returns on their investments is dependent on the willingness of domestic buyers to make purchases abroad.

Prior to the World War, the United States was a debtor nation. That is, our industries had been financed in considerable part by foreign capitalists, who had invested their funds in the stocks and bonds of our great industrial corporations. These corporations had annually to remit great sums in dividends and interest and amortization payments to their foreign creditors. Consequently there was a great demand for foreign exchange, which had to be supplied by our exporters. During this period, therefore, it was normal

for us to have a "favorable" trade balance, and the maintenance of foreign markets for our exports was essential to the continuance of this balance. During and immediately after the World War all this was changed. Through the enormous loans which we made to the Allied governments during the war, and through the heavy investments of private capitalists in foreign enterprises, we became a creditor nation. We have been passing through the "immature" lending period with unexampled rapidity, and are rapidly reaching a "mature" position, if we have not in fact already attained it. During the "immature" period, our large export balance continued, and was even greater than before; but within the past few months the imports have begun to exceed the exports. This is an indication that we are now beginning to realize on our investments, and that, therefore, the maintenance of export markets has not the importance for us, as a nation, that it formerly may have had.

But now it may be well to consider, for a moment, the interests of particular individuals, and see how they are related to the interests of the whole community. In this process of transition to an "unfavorable" trade balance, certain American producers are likely to be affected adversely in one of two ways. If we import increasing quantities of goods now already being manufactured or grown in this country, the domestic producers of such commodities will feel the effects of this competition, and may suffer considerable loss. If our exports decline, American manufacturers of commodities for export will find the demand for their products decreasing and will struggle to maintain their foreign markets. Both of these groups may be expected to bring pressure to bear upon our government to increase our foreign markets

and to shut out the imports. Such pressure has, in fact, already been exerted, and is undoubtedly a factor in, if not the main reason for, the present foreign trade policy of the United States. It is desirable, from the standpoint of national welfare, that we should reap the advantages of increasing wealth made possible by our creditor position; but that we should do so with as little disturbance to individual businesses as possible. It is conceivable that the disturbances might be so serious as to outweigh the benefits. It is perhaps possible, and if possible it is certainly desirable, that the excess of imports necessary to the receipt of the payments due us might be achieved without decreasing our exports, if the imports can be increased sufficiently. If so, then we should seek to maintain what foreign markets we now have, but without making any great efforts at immediate expansion. It is also conceivable that the imports might take the form of goods from tropical or oriental climes of a sort not produced in the United States. This would free our producers from the competition of foreign wares, and would lessen the internal disturbance. Whether or not the full advantages of our creditor position can be reaped by such methods is a matter upon which competent authorities may differ; but to the extent that it is possible it should be attempted. At any rate, the present trade position of the United States does not warrant the prevailing policy of attempting to expand our foreign markets while preventing imports as energetically as we can.

There is yet another situation which may arise in which the maintenance of foreign markets becomes of considerable importance. If a nation has developed an advantageous international trade, following the principle of geographical division of labor, and has come

to depend on certain foreign markets as the outlet for its specialties, a temporary disaster in such foreign markets may seriously affect the exporting nation. Something of this sort has happened to certain of the farm products of the United States, and is partly—but by no means wholly—responsible for the present difficulties of American agriculture. The American farmer has always depended upon Europe to purchase his surplus of wheat and other crops. In response to the war demand he expanded this exportable surplus considerably. After the war the severe economic depression in Europe, which reduced the buying power of the foreign consumers, adversely affected this market, to the injury of the American farmer. Insofar as there is reasonable prospect of ultimately regaining a considerable part of this market, it would be expedient to make special efforts to maintain it, and to find means of making possible the continued exportation of American farm products. But insofar as there is a condition of overproduction in certain of our crops, based on normal world demand, it would not be sound economy to encourage it by frantic efforts to create a market or find one where none exists.

It is not the purpose of this paper, however, to outline a foreign trade policy for the United States, but merely to set forth the general principles of international exchange, on a clear understanding of which any sound policy of trade must necessarily be based. Where certain practical problems confronting this or other countries have been touched upon, it was intended merely to illustrate or bring out the significance of those principles. It is hoped that the principles have been stated with sufficient clearness to establish certain conclusions regarding the significance of foreign markets. It would appear that all international

commerce is based on the principle of geographical division of labor, whereby each country specializes on the products in which it is most efficient and exchanges them for the specialties of other nations. In this way the greatest economy of the world's resources is attained, and each country is enabled to make the most of the industries for which it is peculiarly adapted. Foreign markets, then, make it possible for a nation to concentrate its efforts on its particular specialties, and give it the means of purchasing the products of peoples in other parts of the world. The advantage of selling goods abroad is only realized when goods to an equal value are likewise purchased abroad. The foreign sales markets of a nation should be extended wherever they make it possible for that nation to increase the degree of specialization in its industries; but such extension of exports should be accompanied by similar expansion of imports. Foreign purchase markets are therefore equally to be encouraged with export markets. When a nation has heavy payments to make on account of debts or reparations, however, its export markets must necessarily be expanded more than its imports, and the development of foreign markets then becomes par-

ticularly desirable. The same is true of an "immature" lending nation, which annually is investing large sums abroad. On the other hand, nations which are endeavoring to collect the payment of large debts and reparations abroad—and this will include "mature" creditor nations—must expect a surplus of imports, and should accord every facility to encourage the importation of goods from their debtors or elsewhere. The United States is in the latter position, or is rapidly approaching it. The present American policy of seeking to expand its foreign markets, while at the same time maintaining heavy protective tariffs on imports, is therefore ill-advised.

In so short a paper as this, it has not been possible to go into all the details and to discuss all the possible situations which might arise. No doubt there are particular circumstances which would require some modification of these conclusions, and it may be expected that it may sometimes be desirable to encourage a particular export at a time when increased imports are in general desirable, and vice versa; but the general principles of international trade which have been set forth are true and they can be applied to any particular situation or problem that may arise.

Tendencies in the Foreign Trade of the United States

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THE history of the foreign trade of the United States, like that of any other country, reflects in a marked degree its general industrial history. The economic life of this country during the last quarter century presents a record of steady progress only temporarily affected by the shock of the World War. Naturally, therefore, its foreign trade has shown a healthy and normal growth. Present conditions are all favorable to further increase in economic efficiency and in the general well-being of the people. So far as this augury proves well founded, our foreign trade is bound also to prosper.

Foreign trade is relatively less important in the national economy of this country than of many others. Its character and tendencies are rather a resultant than a cause of domestic economic conditions and changes. It is, therefore, less correct to say that our favorable foreign trade prospects promise well for domestic business than to say that our favorable prospects for progress at home hold promise of growing foreign trade.

EXPANSION OF OUR TRADE

The true picture of the changes in our foreign trade is often missed by confining attention to the mere figures of value of exports and imports. These must first of all be corrected for the sharp price fluctuations that have taken place in recent decades. Moreover, the growth of the foreign trade must be compared with that of population, and with that of domestic production. Our exports at the present time are roughly seven times as great in money value as half a century ago. But this fact ap-

pears in a different light when it is noted that prices at present average half as high again as fifty years ago, that our population has nearly trebled, and that domestic production has increased several fold.

Since 1913 a fairly accurate calculation has been made of the average changes in both export and import prices, and from these quantity indexes are derived. Prior to that time, it is possible to use the indexes of domestic prices as a rough corrective for export values, but this would not be a safe procedure in the case of imports. Reducing the export figures thus adjusted to a per capita basis, it appears that from about 1875 to about 1890, trade increased but little faster than population. For a number of years thereafter there appeared a very marked increase in per capita exports. The rate of population growth had fallen off considerably. The opening up of our vast central prairies made possible a greatly increased export of grains and meat. Exports of the great staple of the South were also rising rapidly. This movement in agricultural exports is obscured in the statistics of values by the marked decline in prices of farm products. Meantime manufacturing industries were growing and were increasingly finding foreign markets.

For ten or fifteen years about the beginning of the present century the export situation changed. The gross value of our exports increased materially, but the figures adjusted for price changes show, if anything, less increase than that in population. There was an absolute falling off in exportation of foodstuffs, and the exports of cotton

did not keep pace with population. The low prices of farm products in the nineties had discouraged agricultural expansion. The increase in the number of inhabitants was demanding a larger and larger proportion of the product of our farms. Our exports of manufactures were increasing rapidly, but not until about 1910 did they suffice to bring about any advance in total exports per capita. For two or three years immediately preceding the outbreak of the World War, per capita exports, in quantity terms, were materially greater than at the beginning of the century.

The war period was, of course, wholly abnormal. By changing the direction of our production, stinting our own consumption in certain lines, and postponing construction and equipment, we were able greatly to expand our shipments to needy Europe, both of foodstuffs and of manufactured goods. Even after eliminating the effect of soaring prices our exports per capita reached quite unprecedented figures. There was a sharp setback when the post-war boom collapsed, but rapid gain in exports has appeared year by year since 1921. Even in proportion to population, our export trade has now reached a point but little lower than during the war period. Expressed in terms of dollars of constant buying power, exports per capita during the period 1921-25 were approximately twice as great as from 1876 to 1880. They were about ten per cent greater than from 1911 to 1915.

It is unnecessary to discuss the changes in value of American imports during the last half century. Naturally, they show roughly the same movement as exports. A conspicuous exception appeared during the war period; imports, after allowing for price changes, showed little increase. Since the war they have regained their relative position.

RELATION OF FOREIGN TRADE TO DOMESTIC PRODUCTION

The bearing of this past history upon the future prospects of our trade may be judged only by comparing the growth of foreign commerce with that of domestic production, and considering the changes in the composition of that commerce.

The most basic fact of all is that expansion in foreign trade has not been faster than in domestic production. Contrary to the rather common opinion, exports do not constitute a larger proportion of our total output, nor imports a larger proportion of our total consumption, than a quarter or even a half century ago. Our ever greater per capita production has meant greater buying power per person. Part of that greater buying power we have used to purchase more goods abroad, especially exotic luxuries and semi-luxuries. To pay for these we have had to increase our exports per capita. In all this process, however, this country has not become more dependent on the outside world either for its consumption or its markets.

Statistical data are not available to show precisely what proportion of our domestic product was exported say half a century ago. It is certain, however, that during that period when agricultural exports were at their peak, we were sending abroad a bigger share of our total output than at the present time.

More satisfactory data are available for the last quarter century. For comparison with export trade, it is most convenient to take into account the output of agriculture and mining and manufacturing industries only. These industries produce very nearly all the commodities which are physically capable of exportation. The products of the construction industries cannot, of

course, be moved. There is, moreover, an immense value of services of transportation and distribution and personal services of many kinds which do not incorporate themselves in movable commodities. Were comparison made between the value of foreign trade and the total income of the American people, the ratio would be very modest, at present hardly five per cent.

At the beginning of the century the exports of the United States were equal to about fourteen per cent of the value of her agricultural, mineral and manufactured products.¹ Subsequent census years down to the war period showed a lower ratio; in 1914 it was nine and one half per cent. The great war effort of the nation is seen in the fact that this ratio for the year 1919 reached about sixteen per cent, the highest point probably ever attained in our national history. Although during the past few years, exports have much exceeded their prewar volume, the ratio to domestic production has been somewhat lower than before the war, standing not above nine per cent (precise data for 1925 not yet available).

This striking fact with regard to our foreign trade is far from being a matter of regret. It does not minimize the growth of exports; it rather emphasizes the expansion of production and the fact that the United States has not become less self-sufficing as she has filled up with inhabitants. With the rich resources at its disposal and with ever more efficient methods, American industry has been able to keep pace with the expansion of population. Much more than that, it has been able to furnish the wherewithal of an ever rising standard of living. Fundamentally the volume of exports is determined by

the volume of imports of goods and of payments to foreigners for services. Our exports have not had to grow faster than production because we have not needed, relatively to our total consumption, more imports.

In particular, the fact that export trade at present does not represent a larger share of our production than just before the war is quite what would be expected. The war cut down the production and consequently the buying power of many countries. It slowed up our own progress but did not stop it, and since 1921 our national output has risen faster than ever. Under these conditions, the domestic market has naturally been better than the foreign market; our buying power for our products has exceeded that of other peoples for those products.

The prewar history of the relationship between foreign trade and domestic production in the United States differed from that in the leading industrial countries of Europe. Until the great conflict put a rout to their progress, these countries, too, had considerably expanded their domestic production, although not so fast as the United States. Their foreign trade, however, had increased faster than the output of their industries. They gained in prosperity, to be sure, but they would have gained more had their growing production been able to find its market, and their growing consumption to find its supply, more largely within their own boundaries. Their progress in foreign trade was thus a less healthy progress than that of the United States. It meant ever increasing dependence on the outside world.

MOVEMENT OF AGRICULTURAL EXPORTS

The changes in the commodity character of American exports and imports reflect, of course, the gradual shift of

¹ This value, it should be noted, is taken at the point of original production, whereas the value of exports includes cost of transportation to the seaboard or the national boundary.

the United States from a country primarily agricultural to one with a highly advanced manufacturing industry. We now export relatively less and import relatively more agricultural products than formerly. Conversely we sell abroad far more manufactured products and buy abroad relatively less. These changes, however, have not served to make our country less self-sufficing in basic products of the soil. We still have large quantities of the more necessary foods and vast quantities of cotton, the most important of all textile raw materials, to sell to the outside world. Such agricultural products as we seek abroad, important as they are, for the most part minister to the less essential wants. We are not feeling the pinch of land scarcity. We are not being forced to import agricultural products which formerly appeared among the list of our exports.

In the early days of our history, tobacco and cotton were our major exports. With the opening of the Middle West, foodstuffs rose into prominence. Half a century ago agricultural products still constituted four-fifths of our total exports, and even as late as the middle nineties nearly three-fourths. Thereafter, until 1917, the decline in proportion was almost unbroken. Indeed, during much of this time, exports of foodstuffs fell off absolutely, although those of cotton and tobacco continued to grow. Just before the war, the products of the farm constituted somewhat less than half of the total exports. The stimulus of war prices and the patriotic effort of the American farmer to do his bit for the Allied cause brought an immense expansion of foodstuff exports. The foreign demand for American cotton, however, was diminished rather than enhanced by the war.

The increased acreage of wheat which continued for some time after the war, and the high prices of cotton in certain

years have tended to keep up the proportion of agricultural products in our export trade. Exports of agricultural products during the past five years have averaged about ten per cent greater in quantity than in 1913. During these five years, the products of the farm have constituted nearly as high a proportion of the total value of exports as just before the war. For the fiscal year, 1925-1926, this proportion per cent has been considerably lower. This fact, however, is far from indicating any diminution in the capacity of the country to produce a surplus of farm products. It has been due to the accident of a poor wheat crop. The problem of the farmer in the last few years, as is so well known, has been to find markets for a surplus. The surplus has been greater than before the war, and that in the face of reduced buying power in Europe and of sharper competition from other agricultural countries.

GROWTH IN EXPORTS OF MANUFACTURES

Meantime, especially since about 1890, our exports of finished manufactures have grown enormously. This group constituted less than one-sixth of total exports fifty years ago. During the past five years, it has averaged nearly three-eighths of the total, and in 1925 the proportion was thirty-eight per cent. Allowing for higher prices, we are exporting at least ten times as much manufactured goods as during the seventies, at least four times as much per capita. Exports of semi-manufactures, of which the most important are certain of the petroleum products, copper and other minerals, have grown at substantially the same pace.

It is the fashion of our European competitors and of some among ourselves to attribute to the World War a

major rôle in the expansion of America's export trade in manufactured goods. This is an error. It is no doubt true that our *share* of the international trade in manufactured goods is greater to-day than would have been the case had there been no war. The war did demoralize the industries and commerce of competing countries, but it likewise diminished the total buying power of the outside world for manufactured goods and, if anything, checked the absolute increase in our exportation of them. The export of finished manufactures from the United States in the year ending June 30, 1914 was 128 per cent greater in value than in the year ending June 30, 1901. The exports of this class in the calendar year 1925 were 154 per cent greater in value than in 1913-14. These rates of increase are much less favorable to the later period if account is taken of price changes. It is probable that prices of manufactured goods in our export trade did not advance more than fifteen per cent during the first of these periods, and that they advanced twenty-five or thirty per cent during the second.

The fact that the United States exports so much more manufactured goods at present than before the war is due not to the misfortune of competing countries, but to the steady and rapid expansion of our domestic industries. The World War cut down the buying power of the great majority of countries. Unable to sell as much as usual of their raw materials and foodstuffs to Europe, Latin-America and the Far East had less wherewith to buy manufactured goods. But Europe during the war and for some time thereafter was in no position to furnish anything like its share of this restricted world demand. The industry of the United States had been deranged by the war, but to no such extent as that of Europe.

Immediately after the war, it swung upwards with extraordinary vigor. Had there been no war both Europe and the United States could have continued that steady increase in export of manufactured goods which both had been experiencing for a long time before. As it was, owing to the terrific slash into her productive strength, Europe lost so much in trade that she is having great difficulty to regain it.

Equally mistaken is the common opinion that the United States has become in large measure dependent on foreign outlets for over-expanded factories. As a matter of fact, exports represent but a small fraction of the total output of American manufacturing industry and that fraction is smaller—not larger—than before the war.

Exports of manufactured goods (including semi-manufactures but excluding manufactured foods) in 1925 amounted to a little over \$2,500,000,000. This is a big sum but the total value of our factory output is many times bigger. Excluding the extensive duplications, the net value of manufactured products apart from foodstuffs is in the neighborhood of \$35,000,000,000 (this figure is estimated from the 1923 census, and the subsequent indexes of production of major commodities, the data of the 1925 census not being yet available). Exports represent thus only seven or eight per cent of the total output of our factories. Obviously American industry would by no means go on the rocks if its foreign outlets were shut off altogether.

For comparison with other years, it is more convenient to use as a basis the gross figures of value of domestic manufactures without attempting to eliminate duplication. The relative amount of duplication, as nearly as can be judged, has remained substantially the same for the last quarter century. The ratio of exports of manufactures to

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the gross value of factory products was roughly four and a half per cent in 1925. The proportion was, if anything, a little higher in 1899. It was decidedly higher—about 5.7 per cent—in 1914. It is clear, therefore, that the relative importance of foreign as against domestic markets has not increased as a result of the war. Of course forty or fifty years ago, when American industry was much less developed, exports did constitute a smaller share of the output than at present. Moreover, the manufactured articles which were shipped abroad in these years were of a much simpler character than those now dominant. Next to mineral oils, the largest manufactured item in our exports at present is automobiles—a product of the highest degree of elaboration.

Of course, there are a good many specific manufactured articles of which, in contrast with manufactures considered as a group, we export a large and increasing proportion of the total output. Examples are sewing machines, typewriters, adding machines, cash registers, motor cycles and bicycles. The explanation is simple. The American product is superior in quality. On account of peculiarly efficient methods of production it is often so much lower in cost as hardly to encounter competition from foreign countries. Even in the highly industrialized countries of Europe the great bulk of the consumption of a number of articles of this type is supplied from the United States. Where the article is one of wide use, one which even peoples of relatively low standard of living can hardly do without, the demand from the outside world may approach or even exceed the demand in this country itself. Hundreds of other products of American factories would be no less acceptable to foreign consumers if they could afford them. So long, however,

as standards of living remain far higher in America than in almost any other country, there are bound to be many manufactured articles of which our domestic consumption is far greater than our export, often greater even than the entire consumption of the rest of the world.

FUTURE OF AMERICAN TRADE

In Agricultural Products.—To indulge in prophecy with respect to the future of American trade is somewhat rash. All sorts of things may occur to upset forecasts. It is, however, fairly safe to point out what is likely to happen in case present factors of causation persist. These factors group themselves under three heads: those affecting domestic production, those affecting foreign demand, and those affecting the competition of other countries.

If present factors and tendencies continue, it seems likely that the United States will gradually diminish her export of foodstuffs, but will maintain or increase that of cotton and tobacco. The peculiar adaptability of our southern soil and climate for these two products would justify exporting them largely, even should population so press on land resources as to necessitate import of basic foods. World demand for cotton and tobacco is likely to continue the growth shown in the past. At least for some time to come, other countries will scarcely become more serious competitors in these two products than at present.

The principal factor militating against our exports of foodstuffs is the growing production of these in more thinly settled countries. Were it profitable to do so, our American farmers could probably—for a considerable time to come, if not indefinitely—increase their output of grains and meats fast enough not only to take care of the

population growth, but also to maintain or even expand the volume of exports. As yet there is in America scarcely such a thing as pressure on the productive capacity of land. Yields per acre are rising with improved methods. With the advance of technique considerable areas of land not now in use can be made to produce at costs little higher than prevail at present. The decline in our farm population which has actually taken place in the last decade or two shows how big a leeway there is for greater output. The world demand for foodstuffs, however, grows but slowly. Since certain other countries are throwing steadily more into the market, there will probably be little incentive for the American farmer to do more than keep abreast of our own population. On the other hand the increase in the number of mouths to feed here should serve more than to offset any actual loss of sales in foreign countries.

Our agricultural imports will long continue to be chiefly of exotic products such as rubber and coffee; of products, such as hides and skins and wool, which can be produced much more cheaply in thinly settled pastoral countries; and of products which require a great deal of hand labor, such as silk and sugar.

In Manufactured Goods.—With respect to the future of American export trade in manufactured goods, sharply conflicting opinions are expressed. English, Belgians, Germans and other Europeans often proclaim their fear that the lead gained by our country in this trade cannot be overcome. They point with discouragement to the rising efficiency of American industry and the many shortcomings in their own productive methods. On the other hand at the close of the war fear of European competition was widespread in this country. The opinion was commonly voiced that peace in Europe would mean

rapid recovery of its export of manufactures and a severe setback in our trade. This view still finds occasional expression, although the marked gain in our foreign sales of manufactured goods since 1921 has largely allayed anxiety.

That the efficiency of American industry will continue to advance seems all but certain. The marked gain of recent years has been due to fundamental and continuing causes. Formerly the constant discovery and opening up of new resources played an important rôle in lowering costs of production. Now the major factors are the increasing use of capital and the rising intelligence of the people. As a country already rich we can afford to add constantly to our capital equipment. Our economic life has been reaping the benefit of enormous and rapidly increasing effort in education and research. Our wealth should enable us further to expand the scope and advance the standards of education. Education and research mean more efficient and more contented work people, more scientific methods of production and of business management. There is good reason to believe, therefore, that cost of production of our manufactured commodities—at least of most of them—will continue to fall, thus strengthening our competitive position in world markets.

How now with regard to world demand for manufactured goods? The history of trade in the past century shows that under normal conditions this demand rises steadily. In times of peace practically every country has tended to advance its standard of living. This is made possible, of course, only by increasing its production. The same causes which have made for ever greater economic efficiency in the United States are present in greater or less measure all over the world. Discovery, invention, application of capital, and educa-

tion work their beneficent results everywhere. The more advanced countries help the less advanced—not so much with altruistic intent, as because it pays to do so. They send thither their capital, their business managers, their engineers, their teachers, their technical publications.

Enhanced productive capacity among the countries of the world reflects itself above all in greater consumption of manufactured goods. The demand for the bare necessities of life is limited. People want only about so much of the basic foods. Very little clothing suffices for modesty and warmth. But there is no limit to the desire for greater variety and quantity of the more highly elaborated goods. When a new or backward country finds itself able to increase its output of foodstuffs or raw materials, almost the first thing it does is to import more manufactured goods.

Concern is often expressed lest the development of manufactures in the newer and more backward countries themselves should cut down the demand for the products of the leading industrial countries. Past experience should banish this fear. For decades such countries have in fact been developing their manufacturing industries. Yet, save for the demoralization resulting from the war, they have imported constantly more manufactured products. The United States itself, for all her immense progress in manufacturing, has steadily increased her imports from Europe. Manufactured goods constitute a smaller proportion of our total imports than a quarter or a half century ago, but in absolute volume we take far more. If one should add together the exports of manufactured goods from the United States and from Europe, he would find that down to the outbreak of the World War the aggregate was rising very rapidly.

This tendency toward increased world trade in manufactures as a group does not, of course, appear in every kind of manufactured goods. New factories in countries which formerly imported some given article may cut down their imports of that article. But the buying power thus released is normally transferred to the importation of other manufactured products.

Obviously one of the immediate effects of expansion of manufacturing industry in such countries is increased demand for the machinery with which to equip new plants. Our country is sending great and increasing quantities of industrial machinery to Latin-America and the Far East for just this purpose. Moreover, with the development of manufacturing industry goes usually that of mining industries and transportation facilities. The older industrial countries find therefore increasing demand for mining machinery, railroad construction material, locomotives, cars and other equipment. Still more important, however, than the direct demand for manufactured goods to create new productive facilities, is the general advance in standards of living that goes with developing industry. The country becomes richer and its consumers can afford greater variety of goods. Experience of the advantage and convenience of each new article stimulates the people to seek other new articles.

As to the competition of Europe, the basic question is perhaps not so much whether we can compete with Europe as whether Europe can compete with us. The greatest good to the greatest number among the producers and exporters of the United States demands that Europe's production shall be restored as soon as possible and shall go on increasing as it did before the war. A country does not gain by the loss of competing countries. If Europe is to

be a good market for our cotton, our pork and our other farm products, she must have a big export trade. Nay, more, the volume of our exports in many lines of manufactured goods—especially machinery and vehicles—depends greatly on Europe's own purchases. She cannot buy goods from us without selling goods somewhere outside her borders.

Recovery and progress of Europe will mean sharper competition with certain of our products in non-European countries. It may actually cut down our export of certain goods. But it will increase the demand for other of our goods, not merely agricultural products but also factory products, and not merely in Europe itself but also in other continents. Enhanced buying power of European countries will mean added prosperity for Latin-America, the Far East and Africa, which sell them food-stuffs and raw materials. This will give those regions in turn added ability to buy manufactures both from European countries and from the United States.

Competition for the sale of manufactured goods in world markets is no new thing. Least of all is it peculiar to the post-war period. For decades before the war Germany was rising as a competitor against England and the United States against both. But all three were increasing their export of manufactures steadily and rapidly. Each manufacturing country of the world was indeed itself an ever better market for the products of the other. What the manufacturers of the United States have to fear is not greater but less competitive ability on the part of Europe.

To enter into any detailed discussion of the prospects of production and trade of European countries would take us far afield. Most of them have not yet by any means recovered from the terrific

shock of the war. In the aggregate they are producing less than before the tragedy at Sarajevo set Europe afire. They are likewise exporting less. Britain's exports quantitatively are about three quarters of their prewar volume. Europe as a whole is doing a little more. The encouraging thing is that conditions are much better than they were during or for some time after the close of the war. The foreign trade of European countries was roughly fifty per cent greater in 1925 than in 1921. This fact alone proves a marked increase in production though not necessarily an equivalent increase.

Many factors still conspire to hold down the productive capacity of Europe. The destruction of capital, the dislocation of industry, and the loss of manpower by the war, the heavy burden of taxation, labor difficulties and political unrest all hamper progress. But if peace can be maintained these fetters will gradually be shaken off. The efficiency of European industry is being promoted by very considerable investment of American capital. European manufacturers are deliberately taking lessons from American methods of production. They are trying to catch up with the progress which the United States made while they were forced to stand still.

It is quite possible, to be sure, that for all the advance which Europe may hope to make in productive efficiency, the United States will move forward faster still. What Europe needs, however, is to make progress and not necessarily to beat America in the race. If the world gains in its ability to pay for imports of manufactured goods, both America and Europe may expand their exports.

One aspect of the problem of competition with Europe in export trade is often misunderstood. We hear much about the advantage of European coun-

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tries by reason of their low rate of wages. Unquestionably in the case of certain commodities the low wage country can undersell the high wage. In many more commodities, however, the opposite is the case. The cart is too often put before the horse in this matter. Instead of high wages causing high costs of production, low costs of production cause high wages. At least this is the case where low costs are due to such factors as rich resources, lavish application of capital, advanced technique and high skill on the part of the workers, and mass production for a vast domestic market. A country that produces much per capita can at the same time maintain high wages and sell cheaply abroad. If Europe can raise her wages, the same means which make that possible will enable her to buy more and to sell more in foreign countries.

All this will sound to a good many exporters both academic and idealistic. But is that not because details obscure the big picture? The producer or exporter of some specific product who actually suffers from increased foreign competition may very naturally fail to see any gain to America from progress abroad. But all facts must be considered together, all our industries and all our interests taken into view. When this is done both the long history of the past and recent experience seem to point in the same direction. They seem to prove beyond dispute that what helps other countries helps our country; that progress in Europe will strengthen our foreign trade.

FUTURE BALANCE OF TRADE

We hear much discussion with regard to the future balance of trade of the United States. Contrary to common opinion this is a relatively unimportant question. The time has long since passed when statesmen find the goal of

national effort in the inflow of gold to pay for a "favorable" balance of trade—an excess of commodity exports. Our own experience shows all too plainly that a country may easily acquire too much of that delusive metal. As a matter of fact under normal conditions the ebb and flow of gold among nations is comparatively small in volume. This means that there is really a pretty close balance between the exports of any country and its imports, when these terms are used in their broader connotation to cover services as well as commodities.

The United States has long been and will long continue to be in the position of having to make large payments abroad on two accounts which play no such important rôle in the debits of most countries. She must pay for services to our multitudes of tourists and for remittances of our foreign-born population to friends and relatives. Were there no other "invisible" transactions but these our merchandise exports would have to exceed our merchandise imports by well up toward a billion dollars yearly. With the shift of the United States from a debtor to a creditor nation, however, these items are now in considerable part offset by payments of foreigners for the use of our capital in the form of interest, dividends and other profits. The continued large excess of exports in recent years has substantially represented the constant stream of new capital sent abroad for investment. This in turn will reflect itself in greater inflow of interest and dividends. The balance of merchandise trade in our "favor" will consequently tend to decline unless there is a progressive increase, ever more rapid, in our annual placements of capital abroad. Some time, no doubt, there must be a limit to such a progression; the return on capital already invested must exceed the new investments.

The future changes, however, in the invisible items in our balance of international trade can hardly, in the nature of things, be sudden. It may take decades before American merchandise trade shows normally an excess of imports. Meantime both our exports and our imports may increase very greatly. Even when it does come about that imports exceed exports, exports will, under normal conditions, still continue to grow. There is no reason to anticipate that the shifting of the balance of trade can, in itself, put a

sudden brake on the expansion of our foreign sales.

A country certainly cannot be considered the loser if it receives part of the commodities it needs from abroad without having to send commodities in payment. Commiseration would be much misplaced for an individual whose income from past savings enables him to get part or all of what he wants without working for it. The nation, like the individual, sells goods and services only in order to get goods and services.

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The Effects of the World War on Trade

By SIMON LITMAN

Professor of Economics, University of Illinois

INTERNATIONAL trade is influenced by so many varied factors that it is extremely difficult to measure the effect of any single cause upon the growth or decline of this trade or upon the character, the sources of supply and the direction of goods moved from country to country and from continent to continent. It is true that no other event has gripped the world with such intensity and violence and has involved so many nations at one time as did the Great War, but because of this very fact one is likely to commit the error of attributing to it some of the after-war changes in world commerce with which the conflict may have had very little to do. The task becomes increasingly difficult when one attempts to evaluate not the immediate effects of the war, but its more enduring influences. With the passing of years other factors have asserted themselves with an ever increasing force. Some of these were operative before the outbreak of hostilities in 1914, others appeared after 1918; to what extent the latter were caused, if at all, by the war, is at times not easy to determine.

THE MAIN FACTS

However, while an exact analysis of the war's effects on present-day trade is impossible, there are certain outstanding facts and tendencies connected with this trade which one may safely consider as the war's aftermath. The most important of these are:

(1) The impoverishment and the industrial and financial disorganization of Europe from which that continent has been recovering but slowly.

(2) The breaking up of the Austro-Hungarian monarchy into its component parts and the secession from Russia of many of her border nationalities, creating a new political map in Central and Eastern Europe.

(3) The expansion of France and the contraction of Germany, the latter having lost all her colonies and about thirteen per cent of her European area which contained an important part of her industrial resources.

(4) The establishment of a number of "mandates," protectorates and dependencies in the Asiatic territory formerly controlled by the Turkish Government.

(5) The collapse of Russia and of other Eastern European countries as grain producers and as consumers of foreign manufactures, and the increased production of cereals, particularly of wheat, in the United States, Canada, Argentina and Australia.

(6) The stimulation of the spirit of nationalism and of imperialism with a consequent attempt on the part of the larger European nations to extend their control over the sources of supply of raw materials and generators of power, and on the part of smaller countries, some of them newly created and without governmental experience, to foster domestic production of manufactured goods.

(7) The increased industrialization of many non-European countries which before the war were in a more or less extractive stage of development, exchanging their raw materials for finished wares from Europe and the United States.

(8) The establishment of direct relations between different trading areas, thus decreasing the importance of Northwestern Europe as a distributing center.

(9) The growth of national indebtedness, both internal and external, of the Entente Allies and the Central Powers, which rose from \$27,883,000,000 before the war (1914) to \$224,174,000,000 following the conclusion of hostilities (1918-19).

(10) A great advance in world prices due to destruction of capital, to underproduction in Europe and particularly to money inflation as a result of overissue of paper currency and the expansion of bank credits.

(11) The imposition of a very heavy indemnity upon defeated Germany, the meeting of which involves a complete readjustment of her foreign trade and the creation of a large excess of exports over imports.

(12) The rapid transition of the United States from a debtor to a creditor nation and the assumption by the United States of the rôle of leadership as a supplier of capital to foreign countries.

(13) The interruption of the normal growth of international trade, the volume of goods moved having declined at the time of the conclusion of the Armistice to about one-half of the prewar level; this level was not attained again until 1925.

The far reaching effects of Europe's debacle may be realized if one reflects on the dominant part which that continent has been playing in world merchandising activities. In 1913 Europe produced 58 per cent of the world's pig iron and 56.7 per cent of its steel; it had about 70 per cent of the cotton spindles and over 75 per cent of the woolen spindles of the world. It was the world's workshop, the source of supply for many fabricated wares.

EUROPE AFTER THE WAR

The return to peace found Europe exhausted. The war annihilated or incapacitated millions of her skilled and unskilled laborers; it destroyed vast stores of her accumulated capital; it undermined the morale of her people and unfitted them for sustained work on fields and in factories; it left Europe with a need for consumption far in excess of her power or inclination for production.

European nations emerged from the struggle full of hatred and distrust towards each other, bent not on the

restoration of normal commercial relations, but on the attainment of selfish nationalistic aims. While certain after-war restrictions on importations and exportations may have been necessitated by depreciated currencies, by unbalanced budgets and by needs of revenue, many of these restrictions may be traced to commercial rivalries and to attempts to attain economic self-sufficiency, whether such self-sufficiency was desirable, profitable or possible. Since 1918 various countries have enacted new tariffs or modified the existing ones so as to maintain the greatest possible number of war-born industries and to stimulate the establishment of new ones. Due in part to these misdirected efforts, efforts made at times under most difficult conditions because the Treaty of Versailles, in searching to establish boundaries along ethnical lines, separated sources of supply from centers of consumption, as for example coal mines and iron ore ranges from blast furnaces, wheat fields from mills, the level of the industrial activity of Europe as late as 1923-24 did not reach higher than 60 to 70 per cent of what it was before the war, while the agricultural activity outside of Russia was 80 to 90 per cent of the prewar level.

DEVELOPMENT OF WORLD TRADE

Because of extreme industrialization and of a comparatively small area, Northwestern Europe has not been able to supply itself with foodstuffs and crude materials in quantities sufficient to feed its people and to carry on its industries. Europe has thus become the chief market of other continents for the disposal of foodstuffs and raw materials, *i.e.* wheat, cotton, wool, tin, copper, lumber. In combining the export trade of all the countries of the world, except those of Europe, one finds that in 1913-14, 64 per cent of

the world's export trade was moved to Europe. In this connection it is necessary to keep in mind that for a part of these shipments Europe acted merely as a merchandising center.

During the early stages of the conflict, while Great Britain attempted to carry on business "as usual," the impossibility of continually doing so soon became apparent. Overseas shipments of European manufactured goods were disrupted and then ceased almost entirely. This stoppage of European exports to Asia, South America and other continents, insofar as the deficiency was not met by supplies from the United States, accelerated the development of manufactures in many countries which before the outbreak of hostilities depended for their fabricated commodities upon the highly industrialized states of Northwestern and Central Europe.

The number of cotton spindles in Japan, China, India and Brazil rose from about 10,000,000 in 1913 to 18,000,000 in 1924; the number of cotton power looms in India and Japan increased from 120,000 in 1913 to 200,000 in 1922. A remarkable growth of manufactures has taken place in Canada, Australia and Argentina. The industrialization of many economically backward countries started long before 1914, but it was considerably stimulated by the war.

The results of this development on world trade have been to change somewhat the character of manufactured goods exported from the United States, Great Britain and other leading commercial nations. Newly created industries in backward countries produce, as a rule, coarser classes of goods. Their establishment leads to requirements for plant equipment, machinery, labor-saving devices, etc.; by adding to the wealth of the countries where industries begin to be carried on, it raises

the standard of living of the people, increases their purchasing power and creates a demand for finer qualities of merchandise as well as for specialties, i.e. automobiles, motion picture films, typewriters, talking machines, electrical appliances.

INCREASED EXPORT OF U. S. FOODSTUFFS

The drop in Russia's wheat production from 663,000,000 bushels (five-year prewar average, 1910-14) to about 280,000,000 bushels (an estimation from rather meager data), and Russia's consequent discontinuance of exporting wheat, coupled with an insistent demand for foodstuffs from almost every part of Europe, led to a temporary change in the normal process of the development of the United States, foreign trade. For many years prior to the war the exports from this country showed a decline in the relative importance of foodstuffs and crude materials and an increase in the importance of exports of manufactured goods.

The total shipments of foodstuffs from the United States averaged \$436,000,000 a year during the prewar period, 1909-14; they equaled \$1,064,000,000 in 1922 and \$989,000,000 in 1924. Allowing for higher prices during the post-war years, there was an increase of over 50 per cent in the volume of foodstuffs exported during 1920-24, as compared with the prewar average. The proportion of foodstuffs exported from the United States rose from 20 per cent of the total domestic exports before 1914 to 26 per cent for the period 1920-24.

The increased proportion of exported foodstuffs, many of which were shipped not in a crude condition but after they had undergone a manufacturing process, as for instance, flour or condensed milk, was not made at the expense of

finished commodities but at the expense of crude materials and semi-manufactured goods; these have played a less important rôle in our exports since 1918 than before the war. The change may be explained, (a) by the rapid development of our own industries which consume an ever increasing amount of our resources; (b) by the conditions in Europe whose demands for raw materials are lagging behind the prewar level; (c) by the stimulation of production of foodstuffs in the United States during the war, the stimulus having been given in part by high prices and in part by war propaganda; and (d) by a continuous demand for foodstuffs in Europe, whose agriculture has not yet entirely recovered from the effects of the struggle and whose demands must be supplied from overseas because of the collapse of Russia.

AGRICULTURAL CONDITIONS

It is of interest in this connection to survey the wheat trade of the world. For the five years previous to the war, the exports of wheat from areas of excess production to countries dependent upon foreign supplies averaged approximately 550,000,000 bushels a year; during 1921-23 the average annual movement of wheat rose to about 682,000,000 bushels. During the same time a shift occurred in the sources of supply, Russia having stopped her contribution of about 160,000,000 bushels a year, while the United States, Canada, Argentina and Australia expanded their production and became important competitors for the sale of wheat in the world's markets. The production in the United States rose from 690,000,000 bushels (prewar average for 1910-14) to 823,000,000 bushels (post-war average, 1920-23); for this same period the production in Canada increased from 197,000,000 bushels to 358,000,000 bushels, in

Argentina from 149,000,000 bushels to 199,000,000 bushels and in Australia from 90,000,000 bushels to 126,000,000 bushels. Gross total exports from these four countries rose from 336,400,000 bushels (prewar average, 1910-14) to 705,000,000 bushels (post-war average, 1921-23). In the case of the United States exports advanced from 105,000,000 bushels to 289,000,000 bushels; the peak of our exports was reached in 1920-21 when shipments represented 366,100,000 bushels; in 1923-24 exports dropped to 156,430,000 bushels, to rise again in 1924-25 to 258,020,000 bushels.

The present agricultural difficulties in the United States may be attributed in part to the recent decline in some of our food exports to Europe, which was bound to come with a gradual improvement of agricultural conditions there and with the growing competition of other food producers who were kept out of the European market during and immediately after the war by the inadequacy of transportation facilities.

INFLUENCE OF U. S. AND GREAT BRITAIN

The unsatisfactory industrial situation which is as yet prevalent in many parts of Continental Europe is made clear by a study of the geographical distribution of the foreign trade of the United States and Great Britain. This study shows that since the war these two leading commercial nations have been developing trade with other countries at the expense of the continent of Europe. Thus, while before the war (the figures for the United States relate to an average of 1910-14 trade, those for Great Britain to 1913), Continental Europe took 62.30 per cent of the American exports and 34 per cent of the British, the percentage fell to 53.10 and 32 per cent respectively in 1925. The exports from the United

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States to Asia rose from 5.60 per cent to 9.90, to South America from 5.60 per cent to 8.20, to Australia from 2.20 per cent to 3.90, to Africa from 1.10 per cent to 1.80, and to North America from 23.10 per cent to 23.20. Great Britain increased the proportion of her exports to Africa, North America and Australia, indicating an extension of the intra-Empire trade; the percentage of exports rose from 9.87 to 11.60 for Africa, from 11.99 to 13.03 to North America, and from 8.71 to 11.43 for Australia. British exports to Asia and to South America show a proportionate decline, *i.e.* from 25.20 per cent to 22.83 per cent for the first, and from 9.59 per cent to 9.11 per cent for the second.

Turning to the import side of trade one finds that before the war Continental Europe shipped to the United States 49.50 per cent and to Great Britain 40.53 per cent of their imports; the percentage fell to 29.30 per cent for the United States and to 32.66 for the United Kingdom. The most significant fact for the United States has been the rise of Asia as a supplier, our imports from that continent having increased, largely because of our growing use of crude rubber and raw silk, from 15.30 per cent of our total imports before 1914 to 31.20 per cent in 1925. American imports from Africa rose from 1.30 per cent to 2.20; from North America from 20 per cent to 23.20; from Australia from 1 per cent to 1.80; the percentage of our imports from South America remained about stationary, having equaled 12.20 per cent before the war and 12.30 per cent in 1925.

Great Britain increased her imports from her dominions and colonies, such trade having been stimulated by the accordence of preferential treatment on certain colonial products and by the growth of Empire sentiment since the

war. In 1925 British overseas possessions contributed close to 30 per cent of the total British imports as compared with about 25 per cent in 1913. Because of this development the Australian share of British imports rose from 7.74 per cent to 9.84 per cent, the African share from 6.10 per cent to 7.73 per cent, and the North American share from 23.86 per cent to 27.53 per cent. The proportion of British imports from South America declined from 9.06 per cent to 8.65 per cent, while from Asia it rose from 12.71 per cent to 13.55 per cent.

The increased trade of the United States with non-European continents may be accounted for, aside from the post-war disorganization of Europe, by the rapid expansion of American manufactures, by the establishment of more direct trading relations with the Orient and by the industrialization of many sections of the Far East as well as of certain parts of South and North America. The manufacturing growth of the United States augmented American demands for many crude materials and foodstuffs which Europe could not supply irrespective of her economic condition, while the industrialization of the economically undeveloped countries and the increased sales of raw materials by these countries to the United States raised their purchasing power and made them better buyers of American goods.

A comparison of the pre-war and post-war reciprocal trade of the United States and Great Britain shows that our exports to the latter country in 1925 constituted 21 per cent of our total exports as against 26 per cent in prewar years, while our imports from the United Kingdom decreased relative to our total import trade from 16.5 per cent to 9.8 per cent. From the viewpoint of British trade, the United States supplied Great Britain in 1925 with

about 18 per cent of her imports—which represents substantially the prewar level, while the exports from Great Britain to the United States declined from 6.7 per cent to 5.7 per cent of her total domestic exports.

TRADE CONDITIONS—FRANCE AND GERMANY

The total volume of the foreign trade of Great Britain in 1925 had almost reached its prewar level, while that of the United States was about 30 per cent greater than in 1913. Of the two other leading commercial nations, the trade of France was 5 per cent greater than before the war, while that of Germany was 27 per cent smaller.

The loss by Germany of Alsace-Lorraine, the Saar Basin and Malmedy on the west, of a part of Schleswig-Holstein on the north, and of Danzig, Memel, Upper Silesia and part of Prussia on the east, reduced considerably German production of coal, iron, steel, textiles, beet sugar, cereals, potatoes and other commodities. While these losses had an adverse effect on Germany's foreign commerce by curtailing her production and her demands, statistics of her post-war trade do not show the full extent of these losses due to the fact that commercial intercourse with the lost districts now appears as export and import trade of Germany. These areas continue to buy products from their prewar sources of supply thus increasing German exports, while their sales to Germany add to her imports. For Europe as a whole, the volume of trade in 1924 was 20 per cent below the prewar level, while that of all other countries was about 18 per cent above what it was in 1913.

FINANCIAL STATUS OF COUNTRIES

The post-war boom which developed in world trade after the signing of the

Armistice may be attributed to the fact that at the end of 1918 many European and other markets were stripped of merchandise; the need for goods was interpreted as an economic demand for them; prices soared and as long as sellers were willing to extend credit, wares could be sold at a large "paper" profit. Reflecting this condition, the value of United States exports rose from \$2,166,000,000 (yearly average, 1910-14) and \$5,919,000,000 in 1918 to \$7,225,000,000 in 1919, and \$8,228,000,000 in 1920. Such trade inflation could not last. War-stricken countries had little purchasing power; they could offer few goods in exchange for what they were buying and they could not be aided through the financing of shipments by means of short-term mercantile credit. Their inability to meet their obligations resulted in frozen credits. By the middle of 1920 prices began to fall, but even this fall in prices did not stimulate trade for some time. There was a drop in the value of exports from the United States to \$4,185,000,000 in 1921 and to \$3,832,000,000 in 1922. A steady rise in our exports has taken place since, their value having reached \$4,909,000,000 in 1925.

Currency depreciation has been weighing heavily upon Continental Europe. This depreciation which has been evident since the war expresses the impoverishment of the European people as well as the inability of their governments to meet problems of post-war readjustment. The effect of the enormous depreciation of money on international trade has been demoralizing. It has tended to disorganize production in countries of depreciated currencies, while violent fluctuations of these currencies due to repeated issues of "uncovered" paper money and to sporadic efforts to improve exchange conditions have discouraged importers

and exporters by making it extremely difficult for them to calculate the cost of goods.

GRADUAL STABILIZATION

A study of the direction of the international commerce of the United States reveals the fact that the balance of our trade with the non-European world is heavily against us, this notwithstanding the fact that the proportion of our exports rose from about 13 per cent of the total world exports in 1913 to 18 per cent of that total in 1925. It is our large excess of exports over imports to Europe which helps us to balance our foreign trade. Due to the transition of the United States from a debtor nation to one of the largest creditors in the international capital markets, our so-called "favorable" balance of trade will be eventually replaced by a surplus of imports over exports. This surplus has been declining, though it is still large; in 1925 it was \$681,000,000 as compared with \$2,950,000,000 in 1920, \$1,976,000,000 in 1921, \$981,000,000 in 1924, \$375,000,000 in 1923, and \$477,000,000, the yearly prewar average, 1910-1914. This surplus may be ac-

counted for by large flotations of foreign governmental and private securities in this country, by a direct flow of American capital into foreign enterprises, by immigrant remittances and expenditures of American tourists abroad, and by the non-meeting of their obligations to us by debtor nations.

Europe has been gradually moving towards economic stabilization and recovery, the movement having become especially pronounced since the adoption of the Dawes reparations plan and the signing of the Locarno treaties. European recovery will mean more intense competition in some of the best foreign markets of the United States. This competition is beginning to be felt with an ever-increasing force in certain lines of textiles and in iron and steel goods. Our sales of those commodities in which we do not possess advantages of technical superiority or of lower unit cost of production, are likely to be curtailed. On the other hand, European recovery will benefit us by raising the purchasing power of various European nations and by re-establishing the equilibrium in the world's economic activities which was so rudely shattered by the gigantic struggle of 1914-18.

Wheat and Wheat Flour

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THE STATISTICAL POSITION

IN order objectively and judiciously to appraise the position and purpose of wheat culture and exports of the United States, we must include consideration of the wheat of Canada. From the standpoint of North American wheat growing, agriculturally and geographically, the boundary between Canada and the United States is artificial. The boundary has, however, determined developments in transportation, milling, trade and banking. Whatever view one may hold on the subject of tariff on wheat, the United States, with large population and low per capita wheat production, is directly faced by Canada, with small population and high per capita wheat production. The relations between the United States and Canada find expression in competition between their wheats within each country and in the common cereal markets of the world. If it were not for divergent varieties and qualities, Europe would regard North American wheat as unity. For American mills, however, the wheats of North America are not a manufacturing unity.

In the charts on pages 34 and 35 are depicted the changing positions of wheat crops and exports of the United States and Canada during the past three decades, under the combined influences of natural developments and war. From this chart one makes the inference that expansion of wheat growing and exporting may be expected to continue in Canada. There is still virgin wheat land in the Prairie Provinces of Canada adapted to Marquis wheat. A new

Canadian wheat has recently been developed, called Garnet; if the predictions for this wheat are fulfilled as were the predictions made for Marquis wheat when it was introduced, a long east-and-west belt lying north of the present Marquis belt will become available for the growing of high-grade wheat. Canada is in the full swing of the extractive stage of wheat growing; the United States, apart from one area centering around western Kansas, is passing out of this stage. Appraising the data in the light of increase of population, dimensions of agricultural areas and expansion of acreage since 1890, one realizes that the United States has passed out of the homestead phase of wheat growing, while Canada has not yet reached the crest of the development. Canada is expanding in the direction of greater exportation; we are contracting in the direction of self-sufficiency.

Table I presents for the United States the figures for crop estimates, exports of wheat, exports of flour, imports of wheat and imports of flour for the crop years 1904-05 to 1913-14 and 1921-22 to 1925-26, with net export of all wheat in terms of wheat and the percentage of this net export to the crop. Table II presents for Canada the corresponding data for the same periods. The transit wheat and flour passing into export is excluded.

The table for the United States presents an exaggerated figure for export for the post-war period, because a considerable volume of flour ground from Canadian wheat is included in the domestic flour export, a matter to

WHEAT AND WHEAT FLOUR

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TABLE I—UNITED STATES PRODUCTION, IMPORTS, EXPORTS AND NET EXPORTS OF WHEAT AND FLOUR, PREWAR AND POST-WAR*

Year Ending June 30	Crop (000 Bu.)	Exports		Imports		Net Exports of Wheat and Flour (000 Bu.)	Net Exports Per Cent of Crop
		Wheat (000 Bu.)	Flour (000 Bbls.)	Wheat (000 Bu.)	Flour (000 Bbls.)		
1905.....	596,911	4,394	8,826	3,103	41	42,581	7.1
1906.....	726,819	34,973	13,919	58	45	100,123	13.8
1907.....	756,775	76,569	15,585	375	48	149,218	19.7
1908.....	637,981	100,371	13,927	342	40	165,298	25.9
1909.....	644,656	66,923	10,521	41	92	115,898	18.0
1910.....	700,434	46,680	9,041	164	145	88,327	12.6
1911.....	635,121	23,729	10,129	509	142	70,159	11.0
1912.....	621,338	30,160	11,006	2,699	159	78,442	12.6
1913.....	730,267	91,603	11,395	798	108	143,854	19.7
1914.....	763,380	92,394	11,821	1,979	90	145,551	19.1
1922.....	814,905	208,321	15,797	14,466	619	265,192	32.5
1923.....	867,598	154,951	14,883	18,013	429	204,872	23.6
1924.....	797,981	78,793	17,253	27,284	169	131,804	16.5
1925.....	862,627	195,490	13,896	6,169	7	254,599	29.5
1926.....	669,365 ^{ab}	63,188 ^b	9,542 ^b	14,511 ^b	17 ^b	93,444 ^b	14.0 ^b

* Sources: Production data from *Agriculture Yearbook, 1923*, and *Foreign Crops and Markets*; trade data from *Monthly Summary of Foreign Commerce and U. S. Department of Commerce*.

Flour converted to wheat at 4.7 bushels per barrel.

^a Believed to have been underestimated.

^b Subject to revision.

TABLE II—CANADIAN PRODUCTION, IMPORTS, EXPORTS AND NET EXPORTS OF WHEAT AND FLOUR, PREWAR AND POST-WAR *

Year Ending July 31	Crop (000 Bu.)	Exports		Imports		Net Exports of Wheat and Flour (000 Bu.)	Net Exports Per Cent of Crop
		Wheat (000 Bu.)	Flour (000 Bbls.)	Wheat (000 Bu.)	Flour (000 Bbls.)		
1905.....	74,213	13,666	1,270	95	41	19,347	26.1
1906.....	109,097	40,840	1,615	60	44	48,104	44.1
1907.....	127,772	39,435	1,562	35	44	46,535	36.4
1908.....	92,691	40,075	1,668	104	44	47,604	51.4
1909.....	112,434	47,692	2,010	28	33	56,956	50.7
1910.....	166,744	52,025	3,373	73	30	68,264	40.9
1911.....	132,049	48,442	3,103	108	67	62,603	47.4
1912.....	230,924	78,787	4,252	141	52	98,386	42.6
1913.....	224,159	95,510	4,496	619	60	115,740	51.6
1914.....	231,717	114,903	4,597	130	51	136,139	58.8
1922.....	300,858	150,935	7,741	193	41	186,932	62.1
1923.....	390,786	229,849	11,003	94	68	281,149	70.3
1924.....	474,199	292,425	12,022	41	89	348,469	73.5
1925.....	262,097	146,958	10,170	352	62	194,114	74.1
1926.....	411,376 ^{ab}	275,604 ^b	10,896 ^b	148 ^b	44 ^b	330,460 ^b	79.4 ^b

* Sources: Production data from U. S. Department of Agriculture Yearbooks 1909, 1910, and 1911, *Report of the Grain Trade of Canada, 1918 and 1924*, and *Foreign Crops and Markets*; trade data from *International Yearbook of Agricultural Statistics 1913-14*, *Canadian Grain Trade Year Book 1924-25*, the *Monthly Report of the Trade of Canada* and the *Dominion Bureau of Statistics*. Flour converted to wheat at 4.7 bushels per barrel.

^a Believed to have been underestimated.

^b Subject to revision.

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which further reference will be made below. Valuable as is the export outlet for certain groups of mills and kinds of flour, it is a small proportion of the product of the industry. In the case of Canada, on the other hand, the flour exported is more than half the flour manufactured. In short, wheat milling in Canada is primarily an export industry; in the United States, primarily a home industry.

The largest fraction of export of North American wheat and flour goes to Europe. During the last five years for which we have complete figures, eighty-four per cent of the Canadian exports of wheat and flour went to Europe; of the wheat and flour exports of the United States, seventy per cent went to Europe. Before the war Europe, outside of Russia, imported on an average 407 million bushels of wheat

TABLE III—WHEAT CROPS AND NET WHEAT EXPORTS (INCLUDING FLOUR) OF THE UNITED STATES AND CANADA, 1909-10 TO 1913-14 AND 1921-22 TO 1925-26*
(000,000 Bushels)

	Five Years' Crop		Five Years' Net Export	
	1909-14	1921-26	1909-14	1921-26
United States.....	3,451	4,012	526	950
Canada.....	986	1,848	481	1,330

* Source: Data obtained from Tables I and II above.

The relations in the two countries are strikingly revealed by the five-year totals of crops and exports before and after the war.

Wheat growing in Canada is the prominent agriculture of the Prairie Provinces. Viewed from the standpoint of disposition of the Canadian crop, the primary purpose of wheat growing lies in the export trade, and the home market is secondary. The value of wheat is a huge item in the trade account of Canada, and the carloadings are the largest single item in the movements of her railways and in their freight revenues. During the last decades of the last century, wheat growing in the United States occupied a premier position; this has been declining with increase of population and exhaustion of homestead lands. For the United States exists a situation just opposite to that of Canada—wheat growing is primarily a production for the home market, the export is secondary and in some years little more than incidental.

to supplement crops of 1,348 million bushels of wheat and 976 million bushels of rye. Russia was the most prominent single source of supply. Since the war, pending recovery of her agriculture, Europe has been compelled to import larger amounts of wheat than before the war. In consequence of the lapse of Russia as wheat exporter, Europe has had to secure most of the imports from overseas. The average European imports during the last five years were 556 million bushels of wheat and 50 million bushels of rye to supplement crops of 1,105 million bushels of wheat and 695 million bushels of rye. This exaggerated dependence of Europe on foreign wheat cannot be expected to continue with the recovery of her agriculture. The current dependence on overseas wheat will decline with recovery of Russian agriculture.

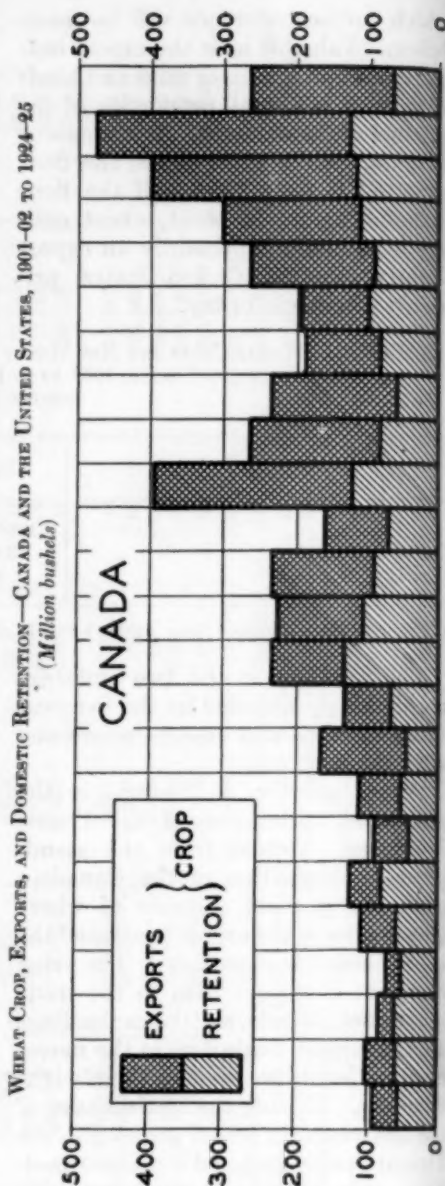
THE HOME MARKET FOR WHEAT

The wheat export of the United States depends on the crop and the

home market. American mills have first call; what is left over is exportable.

What determines the home market? Custom first, price second. Wheat is not the center of the American diet as in France and Italy; less even here than in Great Britain. Bread, called the staff of life, is here used almost as an adjunct, a vehicle for spreading materials. One of the best and practically the cheapest staple food on the dining table, bread is virtually an accessory in the diet. The per capita consumption of wheat has been declining for several decades. For most income classes, prosperity means lowered ingestion of wheat and increased ingestion of meat, dairy products, fruits, sugar, vegetables and various specialties. The trend of diversification in the American diet is clear; although the increase in the consumption of commercially produced fruits and vegetables has been accounted for partly by decline in home gardening, it is impossible to resist the conviction that the present per capita ingestion contains, in terms of calories, a larger proportion of fruits and vegetables and a smaller proportion of cereals than was the case before the war. To some extent the decline in consumption of cereals has been most marked in the use of maize; indeed, there is evidence for the view that wheat has gained at the expense of rye and the coarse grains.

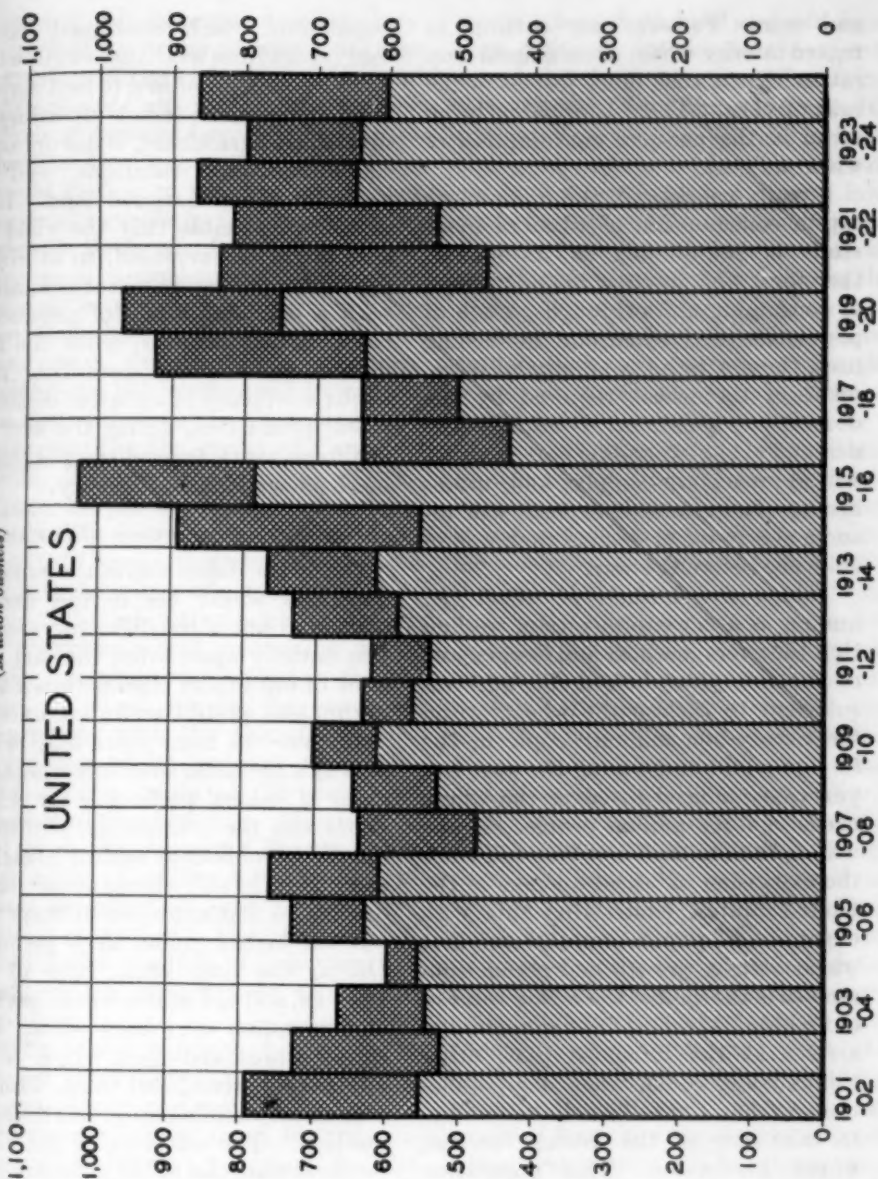
During the past five years extensive, and expensive, efforts have been made to enlarge the home market by increasing the per capita ingestion of wheaten foods. Advertising slogans, class appeals, and high-pressure salesmanship have been invoked in the campaign to induce the population to "eat more wheat." We have little statistical data on which to base a particularized analysis of current consumption. It seems quite hopeless to anticipate an increased per capita ingestion of



wheaten foods, that would find expression in enlargement of the home market for wheat, except as the result of, lowering of national income, cheaper bread, or better bread. The food use of wheat is quite inelastic and the level of consumption is not easily or quickly

WHEAT CROP, EXPORTS, AND DOMESTIC REFERENCE—CANADA AND THE UNITED STATES, 1901-02 TO 1924-25

(Million bushels)



changed. American wheat growers have the assurance of continuous enlargement of the domestic market, due to increase in population. This amounts to something like six to seven million bushels per annum. A further enlargement is in prospect with con-

tinued industrialization of the southern states, with the result of further substitution of wheat for corn.

Apparently, the use of wheat as feed for domesticated animals is on the increase, due in part to continuous expansion in the production of poultry

and eggs. Farmers are coming to regard inferior wheat as an animal crop rather than a cash crop, just as in the case of corn. There is apparently no trend in the per-acre consumption of wheat as seed.

Broadly considered, the present per capita consumption of wheaten food-stuffs is presumably at its lowest; therefore, with increase in the number of consuming units through growth of population and expansion in feeding uses, the net trend is an annual increment in the wheat required by the domestic population. Gradually the demand of the expanding home market will approach the supply; and, unless acreage is expanded, exports will resume the trend of decline that was in evidence before the war.

Taking five bushels of wheat per annum as a per capita ration, we find that the average wheat and flour export of the five years before the war was sufficient to furnish the wheat ration for twenty-one million people in the foreign world and during the past five years has sufficed to cover the wheat needs of forty million people. If one will go back to the Civil War and trace the expansion of wheat acreage in the United States, contrasting this with expansion of population, and interpret wheat-acreage-growth and population-growth in the light of the ration value of our wheat and wheat flour exports, one arrives at the inference that, other things being equal, when our population reaches 130 million it will suffice to take care of the average present wheat production. This population will presumably be reached about the year 1935.

This implies a gradual per capita decline in wheat acreage with increase in population. If the present per capita wheat acreage were to be maintained, this would mean continuation of exportable surplus with increasing

population. Such continued expansion (apart from available virgin wheat lands) would, according to best agricultural opinion, represent an injury to diversified agriculture, a disruption of established crop rotations, and the inclusion of submarginal land. It is, of course, possible that the yield per acre might be increased, to attain an expanding per capita wheat production with a declining trend of production costs. This, however, is for the next decade unlikely. Apparently, what seems most likely is a relative decline in wheat production, during the next ten or fifteen years, toward the position of mere domestic self-sufficiency.

QUALITIES OF EXPORT WHEATS

One of the difficulties in the export of American wheat lies in the varying price relations of the different varieties, this entirely apart from the fact that most of our export wheats (apart from durum and white Pacific) are unrepresentative. In most years hard wheat sells at a premium over soft wheat, because of bakers' preference for strong flours and the continuous increase in bakers' use of flour as against household use. But the soft wheats are of uneven quality, so that a relative shortage may put the higher grades at a premium. During the crop years 1924-25 and 1925-26, soft red winter wheat has been at a premium over hard wheat, hard spring wheat and hard winter wheat alternating second and third, with Pacific wheat standing apart in a detached position. The relations of the prices for these varieties in the different years do not hold for the international market, which introduces an element of merchandising confusion.

Also, the prospects of wheat export depend in part on the commercial position of exporters. Exporting odds and ends of wheat is a specialized knack. The profit in the export of grain is a

function of volume of operations. American exporters of wheat are also exporters of rye and coarse grains and often also of Canadian grains. If operations of American exporters were confined to American grains, the business would decline to such an extent that we would expect to find our export of wheat in the hands of representatives of European import houses. A few super-efficient exporters would survive without Canadian business; but, for the most part, for American wheat exporters the handwriting will be written on the wall when they can no longer participate in the export of Canadian grain. If the wheat pools of the Prairie Provinces of Canada should succeed in obtaining control of the export trade of Canada, this would be a severe blow to American wheat exporters. It might also indirectly work to the injury of American wheat growers, so far as their interests are involved in the export of wheat, unless, by some arrangement with the Canadian pools, American wheat growers were protected from being at the mercy of European wheat brokers. Membership in the North American Export Grain Association has fallen to thirty-four; of these members at least eighteen are foreign-controlled. The retrograded commercial position of exporters has reduced the efficiency of export operations.

The wheat exports of the United States since the war are much less representative and uniform than before the war, with the trend towards inferiority. Before the war, in the absence of Federal wheat-grade standards, European countries were in position effectively to control quality. Since the war, operating under Federal grade standards, exporters mix their wheats so as just to secure a certain official grading, usually No. 2. Our post-war Atlantic and Gulf exports of

winter wheat, both hard and soft, have been definitely inferior to the wheats exported before the war. Classifying the exports, we find, in variable amounts: soft white Pacific wheat; high-grade, medium, and low-grade soft red winter; medium but mostly low-grade hard winter wheats; and durum wheat. To a considerable extent, we export mixed varieties; and, within the variety, the wheats are mixed to take maximum advantage of the Federal grades, that were not framed for the benefit of the European importer and miller.

Since the war, therefore, the European importer finds American wheats inferior in quality, ununiform, often mixed in variety, containing undesirable elements, and representing mostly the culls of the American market. As against this, the European importer has available the representative high-grade wheats of Canada, Australia and Argentina. Unsatisfactory as was the milling quality of Argentine wheat during the past season, it was as uniform and dependable as our exported No. 2 hard winter wheat in recent years. The Russian wheats shipped out in recent years have been below par, especially as regards inclusion of rye; but they have given better satisfaction to European millers than most American hard winter wheats available to European importers. The relative shortness of the American crop contrasted with the needs of the home market, the high specifications of the American consumer of flour, and the deterioration of wheat consequent on over-cropping, find expression in inferiority of American export wheats. It is this inferiority that has made American export wheats practically the last resource of the Europeans, except for lower-priced markets where our wheats find lodgment in what amounts to a dumping trade.

The case of durum wheat is different. Durum wheat, the source of semolina for alimentary pastes, stands almost as far apart from bread-flour wheats as does rye. There are three areas of durum wheat production in the world—the United States, North Africa and Russia. Our durum wheat competes primarily in Mediterranean Europe with the durum wheats of Russia and North Africa. The price of durum wheat on the domestic market stands quite apart from the prices of other wheats, as may be noted in a running glance over wheat prices. There is a home market for durum wheat, small but apparently growing; to a small extent, also, durum wheat may be blended into lower-grade flour. Broadly considered, it is substantially correct to say that durum wheat, like Canadian wheat, is raised primarily for the export market, and the price is relatively independent of those of other wheats. This also holds true, in part, for Pacific soft wheat.

It is interesting to observe that European importers make complaint against the quality of Canadian wheat shipped to them through American ports, believing it to have been tampered with in transit; and also that European importers make complaint against the quality of American wheat shipped to them through the port of Montreal, believing it to have been tampered with in transit. An investigation has failed to demonstrate the occurrence of tampering with Canadian wheat passing through this country; an investigation will, we may be sure, fail to demonstrate the occurrence of tampering with American wheat passing through Canada. While not inclined to question the sincerity of the European complaints, the situation illustrates what is known as "playing the two ends against the middle." Europeans also claim that Canadian wheats

shipped out of Vancouver are better and more uniform than those shipped out of Atlantic ports; this is probably true as expression of the greater hardness of Alberta wheats.

Could we expand our foreign market for wheat by raising an additional amount of high-grade hard wheat? The present wheat acreage does not represent our maximum acreage and not our best acreage; it includes land ill-suited to the raising of high-grade wheat, where wheat is planted as a rotation crop, and excludes other land well-suited to the raising of high-grade wheat. In Montana, western Kansas, eastern Colorado, northeastern New Mexico, and northwestern Texas and Oklahoma are notable areas that, with fallowing and summer tillage, are well adapted to the raising of high-grade hard wheat under tractor cultivation. It would not appear to be difficult to secure an additional fifty million bushels of hard wheat from these areas, so far as the agricultural potential is concerned. But if this were to be accomplished in addition to the present wheat acreage, this would merely mean that American mills would take possession of the additional good wheat and set free a corresponding amount of inferior wheat. The net result would be increase of the exportable surplus of the wheats that Europe wishes least, instead of the acquisition of an exportable surplus of the wheats that Europe wishes most. No matter how large the crop of wheat, we will always use the best and export the rest; this is the direct expression of high flour standards and low wheat standards. In fact, we face the prospect of curtailment of the foreign market, as a result of restoration of wheat growing in Europe and Russia and continued expansion of virgin wheat lands in Argentina, Australia and Canada, because they offer better export wheats than ours.

THE FOREIGN IMPORT MARKETS

It is convenient to divide the world import market into European and extra-European. These markets are to be appraised for wheat and wheaten flour separately; this is necessary in order to obtain a clear idea of consumptive demands.

Europe—considered as a unit, a net importing continent for foods and feeders—regards the importation of wheat as preferable and the importation of flour as disadvantageous. The milling of imported wheat employs capital and labor in Europe. Ocean carriage of wheat to Europe is usually the cheaper, despite efforts of millers to secure comparable freight rates for flour. Grinding imported wheat in consuming countries enables a broader use to be made of domestic wheats. In the imported wheat is from twenty-four to twenty-eight per cent of offal that is highly prized as concentrated feeding stuff, containing practically one-third of the protein of the raw material. Europe cannot import wheat offal from overseas on account of perishability and bulkiness. When flour is imported instead of wheat, in replacement of the wheat offal fraction, an importation of concentrated feeding stuff must be made in the form of coarse grain, oil seeds, or their products. Considered from the national interests of the importing European countries, it is more advantageous to import a certain amount of feeding-stuff protein in the form of wheat offal (attached to the unmilled wheat) even when the price of the offal based on the cost of the wheat somewhat exceeds in the country of destination the price of a protein-comparable substitute. This holds least for the United Kingdom, so far as American wheats are concerned, because mill feed from Australian wheat occupies the premier position

there, and in any event concentrated feeding stuffs occupy a relatively fluid position in the market of Great Britain.

On the other hand, certain European countries have grounds for preference for import of flour instead of wheat. The Levantine market for clear flour, the Scotch market for soft flour, and particular Continental markets for short-extraction flours are illustrations. Also, some countries have only a lesser need and low demand for mill feed.

Beyond this, European flour importers endeavor to enlarge their operations, quite irrespective of the interests of millers, workers and agrarians. The European importer of flour has one advantage over the importer of wheat: his flour comes on the market in a mature state, whereas the European miller must hold his flour in store for a number of weeks in order to offer the baker a comparable article.

A popular mixture of wheats for a British port-mill is forty parts of Canadian hard spring, twenty parts of hard Russian winter or semi-hard Rosafé, twenty parts of Australian white, and twenty parts of Karachi. The country mills use proportionately more Canadian and less Southern Hemisphere wheats. These blends yield flours that are stronger than most Pacific Coast export flours, softer than the general run of American export flours, and much softer than Canadian hard spring flours. A standard blend in France is composed of thirty per cent Australian, ten per cent Karachi, thirty per cent hard Russian winter or hard American winter, and thirty per cent domestic wheat. This furnishes a flour appreciably softer than the one produced in England with the given blend of wheats. Regarding these two blended flours as representative, Australian and Pacific Coast flours would be softer than either, Argentine flour about as hard, American hard winter

flour somewhat harder, and American and Canadian hard spring considerably harder. The European baker would choose among them in accordance with the particular use of the flour, if the import flours were offered at comparable prices with the domestic blends.

The Canadian flours, while very strong, are uniform; the American flours, with the exception of those ground from Canadian hard spring wheat, are much less uniform. The flours of Argentina and Australia are semi-hard and soft respectively, but uniform in type. The European flour importer classifies the American flours from American wheats, with the exception of certain established brands, as lower in quality and less dependable in type and uniformity than the competing flours of Canada, Australia and indeed Argentina. It is against this handicap that the American flour exporter must operate in the endeavor to maintain export trade.

The ex-European market for wheat and flour is divided into two fractions: one, the Orient; the other, Central and South America and the West Indies. The market in Central and South America and the West Indies is largely a market for flour rather than wheat and for good-keeping flour for the most part. The Asiatic market is for the most part a dumping market for both wheat and flour. In Central and South America and in the West Indies flour is a prime staple and stands above the other cereals; the markets are relatively stable, slowly expanding and quite inelastic and resistant to price change, though the poorer population takes to maize when wheat becomes too expensive. In Asia wheat competes with the other cereals, with rice above it and millet below it in price class; with low per capita purchasing power and a low standard of living, wheat is purchased

largely on a price basis, except for the preference accorded to rice, and, other things being equal, the takings of the Orient are inverse to the price level. The Orient cannot be regarded by wheat growers as a promising market even for the dumping of low-grade wheat and clear flour.

We export several kinds and varieties of flour. High-grade soft flours go from the Pacific Coast to Europe, South America, the Levant and the Orient; straight and clear soft flours go from the Pacific Coast to the same regions, practically as a dumping trade. From the region east of the Rocky Mountains we export to Central and South America, the West Indies, Europe and the Levant a certain amount of high-grade blended flour, a variable amount of straight and long bakers' patents, and a notable volume of clears that represents again a dumping trade. In addition, an increasing proportion of our export flour is strong flour ground from imported Canadian hard spring wheat. Canada exports strong flours ground from hard spring wheat, patents, long patents, straights and clears. The export flours of Argentina and Australia are largely straights and patents, so far as Europe is concerned. These different export flours find their niches in the different countries of the world, from season to season, at varying price levels between the highest and the lowest.

It is the peculiar handicap of American mills, on account of our large population and our small wheat crop, that we have available for export so little high-grade flour and so much low-grade flour that has to seek a dumping market. It is this general situation—American export flour largely of unrepresentative type and partly of inferior quality, competing against higher-grade, representative and uniform flours from other countries—that has made

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flour exporting increasingly difficult. Despite efficient milling, flour export has declined. Year after year, since the war, by common consent of exporting millers, American clear flours have carried a very low conversion charge; indeed, it is not too much to say that to a considerable extent the export trade in low-grade flour has been continued because the American household is able to pay high prices for high-grade flours. For the first time, the export of Canadian flour exceeds that of the United States this crop year, a result ascribable largely to the quality, character and uniformity of Canadian flour.

FLOUR EXPORTS

American flour exports consist of flours from two sources, some ground from domestic wheat, and others from imported Canadian wheat. For reasons of transportation that need not be gone into, the Atlantic exports of American wheat pass out both through American and Canadian ports and the Atlantic exports of Canadian wheat pass out through both Canadian and American ports. In each country is a large group of mills eastward of the Great Lakes. Canadian mills have the right to grind American wheat in transit and reexport the flour, and American mills have the right to grind Canadian wheat in transit and reexport the flour.

There is nothing discriminatory in such milling in transit. There is no business for Canadian mills in grinding American wheat. The Canadian mills have a large volume of domestic wheat at their disposal. Since Canada must export nearly three-fourths of her wheat crop, she has the natural desire to do so as much as possible in the manufactured state. The Canadian mills export only one kind of flour, namely, strong spring wheat bread flour, though in several grades. There would

be no commercial purpose in importing softer, and for the most part mediocre, American wheats for grinding for export, or utilizing such wheats in transit for export.

There is a business for American mills in grinding Canadian wheat. Geographically considered, it is immaterial whether Canadian wheat milled for export of flour is ground north or south of the international boundary. Buffalo possesses an advantageous position for grinding Canadian wheat for export of flour, since Buffalo is the largest eastern terminus of the Lake traffic and is prominent in winter storage of Canadian wheat. In Buffalo are groups of mills of large capacity designed particularly for grinding flour for the export trade. As the export of flour from domestic wheat declines, the importance to the milling industry of the grinding of Canadian wheat for export of flour increases. This manufacture of flour for export is advantageous to American mills since it increases the volume of operations, represents an added value of manufacture, and makes an additional supply of mill feed available for the dairies of the northeastern states. In addition, the practice is forced on American mills if they are desirous of maintaining established foreign markets. After domestic consumers have taken the flours of our best wheats, there remain for export mostly second or lower grades. Lacking American quality wheats at world prices, the American mills in the Buffalo district turn to Canadian quality wheats freely available to them at world prices, and mill these in bond for export of flour, with payment of duty on retained mill feed. Disregarding Pacific exports, a large part of the high-grade flour now exported from the United States is ground from Canadian wheat. The law permits grinding in bond or grind-

ing duty-paid wheat with drawback, but the former alone is utilized in practice. With relatively rising prices of high-grade wheats in the United States, purchasable only on premiums, millers find it difficult to maintain foreign markets in competition with Canadian flours, and thus more and more the eastern mills tend to supply their foreign demand for high-grade flour with flour ground from Canadian wheat imported in bond.

Before the war Canadian wheat was ground for reexport of flour only in nominal amounts. Since the war, however, the practice has become greatly expanded. The approximate proportions of flour exports derived from Canadian wheat during the past five years were as follows:

the American farmer. Only where the flour standards of consumers are low, where wheat and flour sell down to a price fixed by low standards of living, can we hope to maintain export wheat and flour markets for strictly domestic products. It is possible that foreign markets for common or low-grade wheat and flour may be susceptible of development, but it is difficult to believe that profits from such markets can be reflected back to the American wheat grower.

Viewed in this sense, the American milling industry uses the high-grade wheat of the expanding Canadian wheat area to supplant the failing supplies of high-grade American wheat. Looking into the future, it is not difficult to envisage a situation in which our

(000 Barrels)

	1921-22	1922-23	1923-24	1924-25	1925-26
Total flour exports of United States *	15,797	14,883	17,253	13,896	9,542 ^b
Exports of flour from Canadian wheat † . .	1,313 ^a	1,975	2,958	1,292	3,438 ^b

* Source: *Monthly Summary of Foreign Commerce*. Figures for May and June 1926 furnished by U. S. Department of Commerce.

† Source: United States Imports of Mill Feed From Canada, by J. A. LeClerc, *Commerce Reports*, December 7, 1925, p. 572; 1925-26 figure supplied by Department of Commerce. Exports of flour ground from imported wheat are classed as domestic exports and there is no published segregation. On the assumption that flour from the reported grindings of wheat in bond during a fiscal year is exported during that year, the figures for exports of flour from Canadian wheat are obtained by estimating 4.7 bushels of wheat to the barrel of flour.

^aNine months only (October-June).

^bSubject to revision.

Apart from flour ground from Canadian wheat, for the most part American export flours must sell on price rather than on quality. It is a dumping trade, just as with our wheats. Our high-grade wheats stand at a premium in the home market, and the exportable wheats are what is left over after the American mills have culled out the premium wheats. The flour standards of the American consumer are higher than the wheat standards of

flour exports would consist of low-grade and clear flours from domestic wheat and high-grade flour from Canadian wheat.

This prospect has brought about an antagonism between the milling industries in the two countries. There has been a great deal of back-and-forth trade banter between American and Canadian mills eastward of the Great Lakes as to their respective advantages and disadvantages in milling for ex-

port. Probably the facts as to comparable costs and expenses vary from year to year: in any event, they are not accurately determinable outside of the books of the milling companies on both sides of the international line. Recently an agitation has been started in Canada against this practice of American mills, with a proposal to make the grinding of Canadian wheat in American mills for reexport of flour unprofitable and therefore impossible. The method by which this is sought to be accomplished would lie in some sort of export tax placed against all wheat passing out of Canada into the United States, to be cancelled without cost to the exporter on proof that the wheat had been reexported from the United States unground or had paid the American tariff duty if ground in the United States. This agitation against milling of Canadian wheat in transit in the United States is favored by the Canadian millers, but has not been supported by the growers of the Prairie Provinces. A considerable volume of Canadian flour exported to Europe passes through this country, and Canadian millers desire to hold this advantage for themselves while denying to American mills the right to mill Canadian wheat in transit. If such an export tax were levied, American millers would have to choose between building or buying mills in Canada or suffering a disastrous setback in foreign markets.

Carried to its logical conclusion, the Canadian proposal would estop manufacturing countries from reexporting the finished products of imported raw materials—a rather extraordinary proposition to be advanced by a Dominion of the British Empire.

THE FUTURE TREND

With the data on prewar and postwar exports of wheat from the United States and Canada lying before us, one

is naturally impelled to venture some interpretation as to the future trend. In order to do this, a world view must be conjoined to the North American view. Let one compare the current position of wheat growing in the United States and Canada with what might have been expected had the international boundary not existed. Were this boundary not in existence, we infer that wheat growing in the next decade would expand relatively more north of the 49° latitude than south of it, and this trend will persist despite the boundary line.

The world view includes a forecast of the trend of wheat production in the world, a revaluation of the relation of agriculture to industry in Europe, a conjecture as to the agricultural recovery of Russia and the Danubian States, an adjudgment of agricultural expansion in typical extractive countries like Argentina and Australia and the present and prospective positions of their international accounts, an appraisal of the future expansion in the United States of manufacture for purposes of export, a guess at developments of free trade or controlled trade throughout the world, and a broad consideration of international finance, debt payments and balances of international accounts of the continents and countries of the world. These cannot be gone into exhaustively at this time, but it is necessary to emphasize certain points in their bearings on the future export of wheat and wheaten flour from the United States.

The effects of expansion of world production of wheat (through restoration of Europe and Russia and extensions in Argentina, Australia and Canada) depend on the growth of population and on the per capita wheat consumption of the world, as the expression largely of competition between wheat and other cereals—these being, for

different countries, rye, maize, oats, barley, rice and millet. Still more broadly considered, the prospective per capita wheat consumption of the world depends upon the development of the diet in different countries, in respect of the relations between primary and secondary foodstuffs. In some countries of the world (and in some classes in all countries) increase of income means enlargement of wheat consumption by substitution of wheat for cheaper primary foodstuffs; in some countries of the world (and in some classes in all countries) increase of income means curtailment of wheat consumption by substitution with secondary foodstuffs, particularly meats. On the basis of historical perspective and experiences, one is in position to enumerate the factors in the direction of increased and decreased wheat production and consumption in the world; but one is not in position to evaluate the interactions of these forces or to make a forecast of the quantitative outcome.

Since the war the United States has made heavy exports to wheat-importing countries, largely as the result of needs arising out of the war and related to subnormal production in Europe and the collapse of Russian exports. This abnormal import market for wheat in Europe the United States has shared with Canada, Argentina and Australia. When European agriculture is restored and Russia resumes her place as wheat and rye exporter, the demands of Europeans for wheat from overseas may be expected to recede from the level of recent years. When this recession arrives, the United States must expect to receive a larger relative share of it than falls upon Canada, Argentina and Australia.

We discern divergent views on the relations of export of wheat. The traditional view, dating back to the time when we were in the extractive

stage of development and were a debtor country, is that we should produce all that we can (including promotion of reclamation projects and making the best of soil, climatic conditions, and parasitic depredations) and sell the surplus wherever salable at the best price procurable. This view has implicitly included the cultivation of sub-marginal lands, the use of the public domain, and mining of nitrogen, phosphate and potash from soils. Related to this policy of expansion was the rapid increase in land values from 1890 to 1920, the heavy increase in farm indebtedness and the augmentation of farm taxes. This view has a large agrarian and political following, as is to be observed in the hearings and debates on the subject of agricultural distress during the past five years. Outside of agrarian circles also there is widespread belief in the utility of large crops as a factor in good business. Before the war it was a common banking view that large crops meant prosperity, quite irrespective of price levels for the crops. The ultra-modern formulation regards a large wheat crop as the basis of a business development. Chambers of commerce believe that we can use large-business methods in handling wheat and flour exports and booster methods in getting new markets, and that modern salesmanship can enlarge the foreign markets for American wheat, even in backward countries with small purchasing power and low standards of living, like China.¹

According to another view, we should undertake to raise about what we need,

¹ It is true that in the Orient rice occupies a price level much higher than wheat, and this despite the fact that cleaned rice and wheat flour have practically the same food value. Why do Oriental countries not consume more wheat? This is a broad question that cannot be gone into here. But it is pertinent to point out that the Chinese wheat crop is probably as large as that of the United States, though unreported in statis-

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making reasonable allowances for variations in yields, with surpluses in good years carried into export whenever profitable, but otherwise fed to animals and carried over to balance years of poor crops. This is what might be called the industrial view of wheat growing. It undertakes to adjust supply to demand, both for domestic and international trade. This view has many adherents among economists, industrialists and conservative farm leaders, especially east of the Mississippi, but finds fewer adherents among agriculturalists west of the central states. The export of wheat and wheaten flour is not integrated; exports may be remunerative to millers, bankers, railways and exporters, without being remunerative to growers. So long as wheat growing is in the extractive stage and growers look on advancing land values as deferred compensation, the export of wheat and wheaten flour may be expected to continue, even although directly unremunerative to growers. A certain incidental surplus is inevitable and must be exported for whatever it will fetch; but one must not confuse the export of a true surplus of wheat and flour with export of incidental wheat and flour, that is really subsidiary to raising wheat and grinding flour for domestic consumption.

Finally, there is the view that we should undertake to raise somewhat less than domestic requirements and trust to the continuous necessity of minimal imports from Canada to keep

ties; and that additional wheat lands are abundantly available within and adjacent to China, lacking only facilities of transportation. It would obviously be more logical for China to raise more wheat, if wheat is to replace rice, unless development of requisite transportation is impossible. In Japan, where the consumption of wheat is rapidly expanding, it is the view of experts that Asia should raise her own wheat and not import it from North America.

domestic prices to the highest point practicable behind the tariff wall, as is at present the case with hard spring wheat. This view might be termed the trust view. It is the position of wheat growing that one would expect to evolve naturally in the course of a decade or two. According to this view, American agriculture is passing from the extractive stage to that of intensive cultivation, with rotation of diversified crops. All idea of export as a remunerative outlet for wheat, except in an occasional year or under unusual circumstances, is relinquished, and the tariff is used as the instrument for securing the highest practicable price.

GENERAL OBSERVATION

There is no discernible prospect of wheat shortage in the United States; the American wheat grower who plans his acreage in the expectation of impending shortage is farming under a delusion. There is no discernible prospect of wheat shortage in the world. The American wheat grower who plans his acreage in the expectation of impending world shortage is farming on a long-shot speculation. Strictly speaking, the world does not for upkeep need the wheat and coarse grain exports of the United States. Our wheat is replaceable; if we were to cease exporting, the replacement and adaptation would occur. Lacking our coarse grains, the world would expand on tropical oil seeds. Our export wheat is desired largely because it is relatively cheap, all factors considered. When Russia and the Danubian States are again agriculturally restored, the truth of this general proposition will become apparent.

Despite much talk about indispensability of stated wheat supplies in import countries, despite the emphasis on bread as the staff of life, there is a sur-

prising amount of elasticity in wheat demand, due to substitution. Thus, in 1924-25, in a year of anticipated shortage, a season characterized by high carryover-in and low carryover-out, the crop year closed with moderate prices. This past season, with prospective shortage, with low carryover both in and out, again the crop year closed with relatively easy adjustment between supply and demand and declining prices. Europe is in position to make substantial adjustments wherever the saving is impressive.

There is no established national policy of wheat export. The mercantilist notion that every export is *ipso facto* a national benefit may be dismissed by wheat growers. The notion that wheat growers are under obligation continuously to produce a surplus as a premiumless insurance fund for consumers is devoid of foundation. The idea that wheat surpluses are shown to be useful because they disappear instead of accumulating has no importance for the problem of wheat growing, since the surpluses disappear partly by cheap substitution for other foodstuffs and partly by degradation to animal feeding stuffs and, indeed, to a considerable extent through wastage.

The growing and export of wheat is a private business, not a public utility. The wheat grower is a public benefactor in no other sense than is the producer of any basic commodity. The grower of wheat is under no historical, political or nationalistic impulse to make unremunerative contributions to society. The growing and export of wheat represent the commercial undertakings of some two million individual American capitalists whose operations are to be interpreted and directed strictly from the standpoint of monetary profits and losses. The wheat grower does not regard himself as an originator of trans-

actions for others, but as a seeker for profits for himself.

It seems to be the consensus of opinion, for which no adequate statistical evidence has been adduced, that the export of American wheat was remunerative in the five years before the war. It seems clear that the export of wheat out of the crops of 1920, 1921, 1922 and 1923 was relatively unremunerative to wheat growing as a whole, though to what extent is indeterminate. The prices received for the crops of 1924 and 1925, on the contrary, are generally regarded as having been remunerative to the industry as a whole, though again to an extent that is indeterminate. It is easy to connect with the price of export wheat the lack of remuneration in 1920-24, but it is difficult to ascribe to the export of wheat the remunerative price of 1924-26. The export of wheat is a precarious business, insofar as concerns its influence on the value of the wheat crop to growers. Apparently, on the basis of accepted average acreage costs, the level of wheat prices regarded as remunerative for export is appreciably higher for the United States than for Canada, Argentina, and Australia. Prospectively there is a price level, with large world crop, at which the export of wheat would be unremunerative to wheat growers in the United States, Canada, Argentina and Australia; above this is another price level at which the export would be regarded as remunerative to wheat growers in Canada, Argentina and Australia, but would be regarded as still unremunerative to the American growers; finally, above this stands another price level at which the export of wheat would be regarded as remunerative to American wheat growers as a whole, and further still more remunerative to wheat growers in Canada, Argentina and Australia. Under this formulation of the situation, the export

of wheat from the United States stands at an actual or potential disadvantage contrasted with Canada, Argentina and Australia.

Clarity of view in respect to the domestic trend is aided by appreciation of important international factors and situations concerning which we suffer from more or less current misconceptions. In the background of all American agricultural programs stands the inevitable policy of Europe, political and economic, to make herself as far as possible self-sufficient in staple food-stuffs and to seek out the indispensable imports in countries overseas (including Russia) that are still in the extractive stage and are net importers of manufactured goods and of services in commerce. The policy of Europe and the necessities of the surplus-producing countries unite in the effort to curtail the export of American farm products to Europe.

Important are the opposing positions occupied by wheat-exporting countries in respect of balance of international payments. The United States is a creditor country. The largest wheat importer, Great Britain, is a creditor country; the wheat-importing countries of Continental Europe are debtor countries. Outside of the United States, the wheat-exporting countries are debtor countries. Wheat is sold in international trade for pounds sterling or dollars. The international trade in wheat centers in Great Britain, is conducted primarily in sterling and stands in close co-operation with British banking that works in harmony with the fiscal policy of the Empire. American wheat exporters are willing to accept sterling or dollars; but our national treasury is under no compulsion to accumulate bills of sterling exchange. Argentina, Australia and Canada must annually accumulate bills of exchange in sterling or dollars, and wheat is one

of the principal commodities employed by them in the purchase of sterling exchange.

Without entering into discussion of the mechanisms of trade, we may be sure that the net effect of the situation is to facilitate the export of the wheat of the surplus-producing debtor countries, especially in view of the advantageous trading position occupied by the British international grain merchants. Our position as creditor country operates against the wheat grower.

For purposes of discussion, it is approximately correct to say that in our present international account the items of interest receivable on foreign loans and investments, ocean freights, motion picture royalties, and expenditures of tourists in the United States nearly balance interest payable on foreigners' investments in this country, ocean freights, immigrant remittances, eleemosynary foreign expenditures and outlays of American tourists abroad. Whatever balance of debits of these items exists, is available for importing countries to purchase goods from the United States. Disregarding movements of gold and silver and repayment of investments on both sides, the maintenance of an excess of export of goods over imports is contingent on continuation of foreign credits and investments by American nationals. Applying this general statement specifically to wheat, this means that during the past five years European countries have purchased wheat from us with money loaned to them; and in the future the export of wheat from the United States will to some extent rest on loans by the United States or movements of capital to importing countries.

Do we need to export wheat to pay for essential imports like rubber, tin and coffee? It has been repeatedly urged in the Congress that exports of agricultural products must be main-

tained in order to pay for necessities, not producible in this country, that are needed more and more in the high standard of living of our people. It is not permissible in this fashion to lump all agricultural products into a unity; each product must be judged by its cost of production and marginal supply price. Insofar as wheat is concerned, the proposition has no present validity in view of the invisible items in our international account. If, as, and when we develop the adverse balance of merchandise trade that belongs to a creditor country, the question of the need of export of agricultural products as items in the international balance of payments will become pertinent. The day is approaching when the net income of the country from foreign loans and investments will approximate a billion dollars per annum. An adverse balance of merchandise trade (an excess of imports over exports) to that extent is theoretically possible before the need

of added exports to balance our international account would be expected to arise. The future extension of imports of raw materials and tropical products desired in the expansion of our standard of living none can foresee. It is, of course, possible to maintain a positive balance of trade in goods if we are willing to invest abroad annually a sum of money balancing the excess of export of goods. Thus broadly interpreted, it is difficult to anticipate in the foreseeable future such reversal in international trade balance as to occasion agricultural production for export. Such an adverse balance of trade as seems probable would not mean that we would use agricultural exports like wheat in order to pay for our imports, since in part the imports would represent, in effect, deliveries in liquidation of payments due to the United States. So far as can be foreseen, we shall not need to export wheat to pay for rubber, tin and coffee.

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Foreign Markets for Live Stock and Meats

By L. D. H. WELD

Manager, Commercial Research Department, Swift & Company, Chicago

BRIEFLY summarized, the situation with regard to exports of live stock and meats from the United States is as follows:

Although we were at one time heavy exporters of cattle and beef, our shipments have dwindled to practically nothing, except that we still sell large quantities of oleo oil, a cattle product. Pork and lard exports are substantial, and we are the largest surplus producers of these products in the world. Lamb and mutton exports are unimportant, although at one time we exported large numbers of live lambs.

It should be realized that live stock is raised all over the world and that all nations encourage its production. Even most of the industrial nations produce at least a part of their meat requirements. There is also a tendency for the people of individual nations to limit their meat consumption to the amounts they produce. The result is that the amount of meat entering into international trade is small as compared with the total world production.

The countries having serious meat deficits are few in number. England alone imports sixty per cent of all meat shipped in international trade. Germany, France, the Netherlands and Italy are other importing countries. The principal exporting countries are Argentina, the United States, Australia, New Zealand, Uruguay, Brazil and Denmark. Argentina leads in exporting beef. Australia and New Zealand export the most mutton and lamb, and the United States is by far the largest exporter of pork and lard.

CATTLE AND BEEF EXPORTS

The development of the western range industry following the Civil War resulted in a surplus of cattle. The export of live cattle had begun in 1870, and although fluctuating from year to year, showed a gradual increase until 1906, which was the record year. After that time, cattle exports began to decline with great rapidity, so that by 1914 they had practically disappeared. The reason for this remarkable change will be brought out below.

The exportation of beef products had also assumed importance by 1870. With the development of the refrigerator car and of the refrigerated ocean steamer, chilled fresh beef began to move abroad in large quantities after 1890.

Exports of live cattle and beef products for selected years were as follows:

Fiscal Years	Exports of Live Cattle	Exports of All Beef Products
1870.....	28,000	70,000,000 lbs.
1880.....	183,000	270,000,000 "
1890.....	395,000	540,000,000 "
1900.....	397,000	674,000,000 "
1906*.....	584,000	732,000,000 "
1910.....	139,000	286,000,000 "
1914.....	18,000	151,000,000 "
1923.....	61,000	192,000,000 "

*Year of largest live cattle and total beef exports.

Examination of this table shows that beef exports also reached their height in 1906 and that after that year there was a rapid decline. The reasons for

the decline of cattle and beef exports are as follows:

- (1) Production costs in the United States increased because of the disappearance of cheap grazing lands and the breaking up of western ranges.
- (2) Argentina, because of the existence of extensive, rich, grazing lands and favorable climatic conditions, began to produce cattle in great numbers at production costs which were lower than in the United States.
- (3) Increased domestic demands for beef in the United States and curtailment of production—due to heavier costs—resulted in our producing only enough beef to supply ourselves.

Argentina quickly became the great beef exporting country of the world. This rapid shifting of international beef business from the United States to the Argentine is probably one of the most striking changes that ever took place in international trade during times of peace.

An interesting side-light on this change is found in the policy pursued by American meat packers in buying and building plants in South America. At least the company which the writer represents had developed an elaborate and expensive sales organization in England for disposing of American meats. Valuable trade connections had also been established. The disappearance of beef exports from the United States threatened the extinction of the fine business that had been built up. Rather than undergo the loss that discontinuance of this sales organization would have entailed, this company bought a plant in Argentina in order to obtain meat to sell in England. This was the immediate reason for the en-

trance of the American packers into the South American packing industry. Thus, while the United States lost its foreign trade in chilled beef, the larger American packers have continued to supply the foreign markets with beef from Argentina. Half of the beef exports of Argentina come from plants owned by North American capital.

During the World War the United States again began to export beef heavily. But this was due to special conditions which lasted only until the close of the war. There was, however, an insistent demand for meat for the Allied nations, both for their civil populations and their armies, and the shortage of ships made it necessary to use the much shorter haul from the United States than the one from Argentina. American farmers responded quickly to the increased demand for meat and the American packers handled enormous shipments in incredibly short spaces of time during this war emergency.

Since the close of the World War, exports of cattle and beef have again dwindled to practically nothing. Small quantities of beef are even imported from time to time, in spite of the tariff duty of three cents a pound. As a matter of fact, when beef was put on the free list in 1913, this product began to be imported into the United States until the outbreak of the World War. One hundred and seventy million pounds of Argentina beef were imported in 1914! To-day the United States produces only about enough to supply its own inhabitants. Since the World War the sudden collapse of our beef export trade caused cattle prices to go to disastrously low levels. During the readjustment which followed, cattle men suffered financially and the cattle-raising industry has only recently emerged from a protracted period of readjustment.

The United States still continues to market large quantities of beef oils and fats in European countries. More than half of this volume is in oleo oil which furnishes raw material for the great oleomargarine industry of the Netherlands, Germany, Norway and Sweden. The Netherlands alone takes practically half of our exports of oleo oil.

Many European countries produce more oleomargarine than we do. It is said that a single Dutch company produces more each year than the entire United States. Europeans are frugal, thrifty people in their eating habits, and no where is this characteristic more pronounced than in Denmark, whose people import large quantities of oleo oil and fats for home consumption in the form of oleomargarine and export large quantities of butter to England.

EXPORTS OF PORK AND LARD

Our foreign trade in pork products was important even in early colonial times. Later—in the days before the Civil War—when the industry centered in Cincinnati, foreign workmen were brought to this country and large quantities of pork products were packed at Cincinnati and sent to European countries and to the West Indies.

The changes which occurred following the Civil War increased not only our exports of cattle and beef, but also of pork products. During the period 1870 to 1900 these conditions favored the rapid development of our foreign trade in pork and lard; following 1900, the regulatory policies inaugurated by importing nations and competition with Denmark—and to a lesser degree with Canada—caused our exports to decline. The table above shows this decline clearly.

With reference to the period 1870–1900, although the development of

Fiscal Years	Exports of All Pork Products
1870.....	99,000,000 lbs.
1880.....	1,231,000,000 "
1890.....	1,160,000,000 "
1899*.....	1,678,000,000 "
1910.....	707,000,000 "
1914.....	922,000,000 "
1923.....	1,824,000,000 "
1925.....	1,413,000,000 "

* Year of largest pork exports prior to the World War.

refrigeration did not revolutionize our exports of pork to the same degree as of beef, it did permit the exportation of frozen pork and of bacon and hams of a milder cure than had previously been possible. The increase in our pork exports was even more rapid than in beef, as reference to the foregoing table shows. Our pork and lard found a ready sale in practically all of the industrial European nations, and in the West Indies, Mexico and Central America as well. We were particularly successful in cultivating the British market and developed a good bacon trade with this country. Competition from other nations was not keen and we supplied about four-fifths of the total pork entering international trade.

Following 1900 our pork exports declined steadily. Probably the most important factor in bringing about this decline was the tendency of the European governments to inaugurate policies designed to encourage the home production of pork products. In Germany, and to a lesser degree in France, authorities urged the production of hogs in the place of sheep and beef cattle, with the result that the number of hogs in these countries steadily increased. In 1914 Germany had about twenty-five million hogs, and France, about seven million. Home production was also fostered by the erection

of tariff barriers designed to keep out imported pork. Even England, which has always encouraged the importation of food products, practically excluded frozen pork.

It is significant that, despite these regulative methods, the volume of our lard exports did not materially decline. European countries were unable to supply the demand for fats, even under a policy of increasing hog production, because the European hog—fed upon beet pulp, potatoes, small grains, and dairy by-products—does not yield a large quantity of lard. Consequently, as meat consumption became more restricted, people purchased lard in larger quantities in order to supply their need for energy producing foods. In Germany, for example, lard is used as a spread for bread. Thus, while our total pork exports declined from 1678 million pounds in 1899, to about 900 million pounds in 1914, the proportion of lard to the total, increased from forty-two per cent to fifty-two per cent during the interval. One-third of our total lard production was exported.

It was also during this period that Denmark succeeded in becoming an important factor in the British bacon trade. This will be discussed in detail later.

During the World War, our exports of pork products experienced the same enormous increase as our exports of beef. Even though our lard exports declined—due to the loss of our Central European market—total exports of pork rose to unprecedented levels when the burden of supplying the Allied armies devolved upon America. Our volume of pork exports was more than twice as large during 1918 as before the war; in 1919, when the task of feeding the war-wasted nations began, three times larger.

The first effect of the inevitable readjustment following the war was the

curtailment of foreign purchases, but the war-time decrease of hog raising in Europe created a demand for American pork products even in spite of financial distress. Lard exports steadily increased. Successively large corn crops in the United States again encouraged hog production, and with lower hog prices, foreign nations began buying heavily. In 1923 our pork exports became as large as in 1918 and lard exports were more than twice as heavy as during the five years preceding the war. The presence of this enormous foreign market undoubtedly stabilized domestic hog prices.

Since 1923 hog production has declined sharply in the United States. High corn prices, due to a short corn crop, and low hog prices, due to the enormous supply, caused farmers to curtail hog raising. In 1925 exports were smaller than in any year since 1915, but they still continue larger than before the war.

DISTRIBUTION OF PORK EXPORTS

As the preceding discussion indicates, the United States is now chiefly important as an exporter of pork and lard. Although from eighty-five to ninety per cent of our pork production is consumed at home, we contribute nearly three-fourths of the international trade in all pork products and more than nine-tenths of the world trade in lard. In recent years fully one-half (or more) of our export volume has consisted of lard. Bacon, hams and shoulders are other important items. These three products comprise four-fifths of the total.

Our foreign pork trade may be roughly divided as follows: trade with Great Britain, trade with Continental Europe, and trade with the West Indies. Trade with other parts of the world is unimportant. Our most important customer is Great Britain, who

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takes fully two-fifths of our total pork exports. England is the greatest market for bacon, hams and shoulders, and is the second largest importer of lard.

Germany takes about one-third of our lard exports and is an important market for pork fat. Cuba imports large quantities of lard, bacon, highly seasoned hams, and is our most important foreign market for sausage. The Netherlands, our most important purchaser of beef oils, also takes large quantities of pork.

The following table shows the proportion of our total pork exports taken by the various nations in 1923: (More than sixty per cent went to the United Kingdom and Germany.)

PROPORTION OF U. S. TOTAL PORK EXPORTS
BOUGHT BY VARIOUS NATIONS IN 1923

United Kingdom.....	38.3	per cent
Germany.....	24.3	" "
Cuba.....	7.1	" "
Netherlands.....	6.2	" "
Belgium.....	4.6	" "
Italy.....	3.8	" "
Canada.....	3.0	" "
France.....	1.2	" "
Norway.....	.8	" "
Sweden.....	.7	" "
Other countries.....	6.8	" "

COMPETITION WITH DENMARK

One of the greatest problems in marketing meat products abroad is to satisfy the different tastes of foreign purchasers. Nowhere are tastes more exacting or harder to suit than in Great Britain. The British people demand pork from hogs that are not too fat. Hams, shoulders, and lard from American hogs find general acceptance in the British market, but we have difficulty in meeting the Britisher's bacon taste. He likes a much milder cure than we do in America, and it is difficult to ship mild-cured bacon overseas.

Besides the difficulties mentioned above, the American packers have had

to face competition with Denmark, which for many years has made a specialty of cultivating the British bacon market. The Danes early saw the possibilities of using the by-products of their dairy industry as a principal feed for producing hogs of the ideal English bacon type. Their nearness to the British market was another factor in their favor.

It was largely as a result of Danish competition that our bacon exports steadily declined after 1900. In 1900 bacon comprised thirty-six per cent of our total pork exports; by 1914 it comprised only twenty-one per cent of the total. In 1900 we supplied more than half of the bacon imports of the United Kingdom; by 1914 our proportion had shrunk to thirty-seven per cent and that of Denmark had risen to fifty-three per cent.

During the World War, because of its location between the opposing forces, Denmark was practically eliminated from the British market, and because of delays in shipping, even the American bacon had to be given a harder and more salty cure than the British had preferred before the war. This bacon was prepared according to British Food Ministry specifications, however. After the Armistice, American packers resumed shipment of mild-cured bacon to England, but unfortunately a shortage of shipping developed during the summer of 1919, bacon prices rose, and the English Government resumed war-time purchase and control. Heavy arrivals of American bacon during the hot summer months, shortage of storage space, port congestion, dock strikes, etc., combined to affect the quality of the mild-cured American bacon when it was finally marketed by the English Government. The reputation of American bacon, already affected by the necessity of a hard cure during the war,

suffered even more, and British consumers became prejudiced against it, assuming that the American packers had sold inferior bacon to the British Ministry of Food. This prejudice has been gradually dying out.

This unfortunate experience of the American packers, no doubt, had much to do with the rapid recovery of Denmark, which to-day again supplies the British market with half its bacon requirements.

Conditions in Denmark, however, differ markedly from those in the United States. Two-thirds of the Danish pork production goes to the United Kingdom, while in the United States nearly ninety per cent of our pork production is consumed at home. Not more than five per cent of our pork is marketed in England. Furthermore, the American, fat, corn-fed hog admirably suits the demands of our domestic market, as well as most of the demands of foreign markets. It is the hog of greatest general utility, because the world needs lard more than it does lean bacon. Much can be done, however, in our northern dairy states and small grain sections to develop a bacon type hog, suitable for the British bacon trade. By following the example of Canada, who has strengthened her position in the English market by careful attention to bacon type hogs, the United States can regain some of the trade it has lost. At the present time we supply only a fourth of the British bacon requirements, but as British prejudice disappears, by aggressive merchandising, we can no doubt strengthen our position in this important market.

PORK EXPORTS & THE PRODUCTION & PRICE OF HOGS

Our foreign market for pork products undoubtedly enables American farmers to raise a larger number of hogs than

could otherwise be marketed at a profit. Since 1919, the average volume of our pork and lard exports has been equivalent to the weight of more than eleven million hogs. Since our exports consist principally of bacon, hams and lard, the export market is even more vital to the present scale of hog production than the above figures indicate. For example, one-third of our lard production is exported and, since the war, the average annual volume of lard exports represents the yield from more than twenty-four million hogs. It is at once apparent that if this outlet were cut off or materially reduced, it would have a far-reaching effect on hog prices, and total hog production in the United States.

As regards the effect of our pork exports upon hog prices: It is obvious that the supply of corn, the relation between corn prices and hog prices, and conditions of domestic demand are the most important influences affecting prices. A careful study of export statistics over a long period of years shows that in years of light production and high prices exports decline, and that in years of heavy production and low prices foreign purchasers buy heavily. This suggests that the export market helps to stabilize prices in this country by taking increased quantities of pork products when prices in the domestic market are low, thus keeping them from going even lower. This effect of our export outlet was clearly demonstrated in 1923 when hog production increased more than thirty per cent in a single year. During that year foreign purchasers stepped in and purchased as much pork as in the war year 1918. This huge export volume, a welcome shock absorber, had an important effect in stabilizing pork prices and in preventing demoralization in the domestic market.

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prices discourage pork exports is apparent from the decline that has occurred in our export volume during 1925 and 1926, as a result of small production and prices that have been higher than in any year since 1920. It is apparent that in years when the pork supply is light, domestic consumers bid prices to a point out of reach of many of our foreign customers.

Although the volume of exports depends largely upon price—and the usual function of the export market is apparently that of a stabilizer rather than an accelerator of price—this does not in any way controvert the fundamental fact that the foreign market is an integral part of our outlet for pork products, absorbing from twelve to sixteen per cent of our total pork production. Its long-time effect on prices is in proportion to the volume it absorbs.

PRESENT SITUATION

As pointed out in the preceding section, smaller hog production and high prices have been largely responsible for the decline in pork exports during the past two years. In fact, at the present time pork production, which is now at the low point of the cycle, is hardly large enough to supply the home market. The American people are out-bidding our foreign customers and as a result the American packer can realize a higher price by cutting hogs for the domestic market than by converting them into cuts for sale in Great Britain and other foreign markets. Only the desire to hold foreign customers of long standing has prompted many packers to continue shipments under these conditions, and it is clear that large exports are not encouraged.

In spite of the fact that European buying power has improved during the past few years, this improvement has

not been great enough to warrant heavy purchases of American meat products at the high prices now prevailing. In the British market, where perhaps purchasing power is higher than in any of the other European countries, the Danes have strengthened their position at our expense. Since only one-third of their production is consumed at home, changes in domestic demand do not so seriously affect supplies for the British market as in this country.

The European nations have made steady progress in rebuilding their hog raising industry during the past few years. In Germany, present production is estimated at about eighty-five per cent of production in 1913, and an increase in the latest pig crop has been reported. The Netherlands, Poland and Yugoslavia have likewise increased their production and are now producing a surplus which they are marketing to advantage in France, Germany and Italy. Dutch and Polish pork products are being sold in these markets at prices considerably below those asked for the American products.

It is apparent that European countries are beginning to follow policies similar to those in effect before the war. In Germany a high tariff has been declared which has considerably affected our export volume. European nations are making every effort to make themselves again practically self-sustaining as regards meat supply.

Another factor which no doubt has affected the volume of our pork exports during the past two years is the competition of these products with lower-priced beef from South America. Although total trade in beef is no greater, there has been a marked increase in the amount of chilled and frozen beef imported by Germany, France, Italy and some other nations.

This increase no doubt is in part due to the high price of pork products.

Lard exports have also declined sharply, but not to such an extent as exports of other pork products. In 1923—the year of largest exports—lard comprised about fifty per cent of the total; during the fiscal year 1926, the proportion of lard to the total had increased to nearly sixty per cent—the highest proportion in the history of our foreign trade. This indicates that the European nations, even in the time of high prices, must rely upon America for their supply of lard. It is apparent that as European hog production increases, exports of our pork cuts—such as bacon, hams and shoulders—decline more rapidly than our exports of lard, because the yield of lard from European hogs is too small to supply the demand for this product.

The increase of our own population

will continue to command a larger and larger production of pork and it is to be expected that our surplus will be reduced as the domestic demand increases. This will mean higher pork prices. It does not follow, however, that the United States must surrender her front rank position in the exportation of pork and lard. Even under the most favorable conditions, Europe cannot be self-sufficient in pork production and it is apparent that she must turn to the United States for practically all of her lard imports.

Nevertheless, it is clear that European nations are making every effort to become self-sustaining as regards meat supply. Economy will be the rule. Unless European buying power experiences a marked increase, it is probable that our meat exports will show the same downward tendency as before the war.

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Trade in American Motor Cars

By PERCY OWEN

Director of Foreign Sales, Dodge Brothers, Inc., formerly Chief,
Automotive Division, Department of Commerce

THE motor car, such an important factor in our daily lives here, is not in such general use outside the United States, due largely to economic reasons. But a comparatively few years ago motor transport was unknown. Given a world whose resources are more nearly completely tapped than at present and whose people are more developed and educated, figures covering motor car circulation may reach an extent which will tax credulity.

In considering the probable future expansion in the use of American-made motor vehicles throughout the world, it may be well first to consider our early experiences and the obstacles which we had to overcome before the motor car came into its own.

PIONEER DAYS

On January 1, 1926, the United States contained 20,051,276 motor vehicles; eighty-one per cent of all those in the world, and so accustomed are we to take motor transportation for granted that we are somewhat inclined cursorily to dismiss the period of transition from the time honored animal-drawn to the mechanically propelled vehicle. We rarely hark back to the days when the pioneer motorist was almost invariably greeted with the jeering "Get a horse"; when there were serious mechanical difficulties; a lack of roads, and the need of combatting the "luxury" idea which was at first so firmly imbedded in the public mind. Then, with the increase in circulation, there were the dangers of badly regulated traffic, the need for training the lay mind in things mechan-

ical and an infinity of other new problems.

We changed from "pleasure car" to "passenger car," and overcame high construction costs by economies made possible by specially designed tools and machinery developed in order to meet the necessities of rapidly growing sales.

The first motor cars particularly appealed to those with surplus means. The change from horse-drawn to gasoline or electric carriages was too costly except for those who were willing to spend freely. Automobiles were regarded, in that early epoch, as luxuries. Their owners included only the very well-to-do and cars were used solely for pleasure purposes.

As longer trips became more common, owners not only found their cars somewhat erratic and temperamental, but discovered that the roads they had to negotiate were not those precisely calculated to make motoring either carefree or pleasant. There were such startling events as "one hundred mile non-stop runs," in which early car owners competed for silver cups and blue ribbons. Many there were who fell by the wayside and a very meagre few actually crossed the finish lines.

To the unflagging interest and persistence of the early builders, who carried on with limited capital and with still more limited experience, must go the honor and credit for improvements in design and quality. Tours and competitions gradually extended in length and importance, and, as a result of lessons learned therein, constant refinements were evolved. Better performance created a more receptive at-

titude on the part of the public, and interest was aroused, bit by bit, until to-day the automobile has reached a stage where it is no longer regarded as an interesting experiment but is accepted as part and parcel of everyday life.

In naming the class of user first to see the motor car's possibilities, and early to consider it as an invaluable contribution to modern progress, the physician, I believe, should get first mention. A memorial should some day be erected to the encouragement given the infant automotive industry by the medical profession, for in making a practical daily use of the motor car, medical men demonstrated its vast superiority over all previous forms of road transportation.

The wealthier classes, thanks to their early employment of motor cars, attracted the attention of the masses to the advantages of this form of transportation, but the physicians first directed attention to its practicability, the adoption of almost universal motor transport remaining only a question to be solved by time and the application of cheaper production methods.

In the early days of motoring the American motor car manufacturers determined upon a policy of united effort. The wisdom of this step has contributed immeasurably to the advancement of the industry. The brightest minds of the mechanical, metallurgical, and civil engineering professions were attracted to this new and growing field which promised almost unlimited prospects. Later a modern school of salesmanship was created, with well-planned sales campaigns, comprehensive advertising programs of unprecedented scope, and a scientific stimulation of buyer interest.

Mechanical transport caused a tremendous saving of time—life's most valued element—but it took the urge

of this, a newer and younger country, with a more acute appreciation of the value of the time element, to foster a speedier growth in the employment of motor vehicles than had been the case in Continental countries, where not only is time not conserved to the extent that is true in the United States, but where labor is cheaper. Figures prove how almost incredible has been this growth. Cars in this country increased from 8000 in 1900, to 468,000 in 1910; to 2,445,666 in 1915; and to the astounding total of 20,051,276, January 1, 1926.

European manufacturers who pioneered the way for our manufacturers developed a car for the wealthier classes. Their sales possibilities were, therefore, limited. World traders by nature, they also sought sales in foreign markets, blazing a trail, first by sales to foreign visitors to Europe, and later to Eastern potentates and rulers, Latin-Americans of wealth, and the merchant princes and manufacturers of this hemisphere.

Their cars, developed for home consumption and used on roads scientifically engineered, were found to be somewhat lacking in stamina when used on roads of newer countries not adapted to their use. The American car, however, developed in a country where good roads were the exception rather than the rule, became competitors of no mean calibre in all overseas markets.

Because of a home demand which increased continuously over a period of years, the American manufacturer, with few exceptions, confined his efforts to this continent, leaving overseas opportunities largely to the Europeans. In 1914, the war disrupted industrial operations and trading possibilities were consequently neglected, leaving motor transport needs unfilled in non-manufacturing countries. As the American home market was disturbed

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by the war, our motor manufacturers began to look to those markets which they had previously almost ignored.

PRODUCTION GROWTH AND EXPORTS

It is interesting to note some figures touching American motor car production and exports from 1910 to 1918. These are shown in the following table:

Year	American Production	American Exports
1910.....	187,000	5,331
1911.....	210,000	12,254
1912.....	378,000	19,198
1913.....	485,000	26,756
1914.....	569,054	27,092
1915.....	892,618	71,579
1916.....	1,583,617	81,184
1917.....	1,868,949	72,409
1918.....	1,153,638	47,350

In 1914 our manufacturers were beginning to feel a certain slackness in sales demand. The advent of the war, however, altered the situation from one of uncertainty and consequent worry to one of growing sales and increased manufacturing activity.

A pressing need for motor transport arose, and America answered with her products, supplying the needs of the warring armies. During the war the manufacture of motor cars materially increased and the figures covering the war years indicate the growth of both production and export.

With the Armistice came a period of reorganization and a general slowing up of business throughout the world. After the first breathing spell of peace, however, there became apparent the need of filling the gaps caused by reduced war-time production. The world was trading, not fighting, and must be served.

The demand for transportation was world-wide. America, with her great

financial resources and her modern mechanical equipment, was enabled to turn from war operations to peace-time programs in shorter time than any other nation. The economies of motor transport being recognized and admitted, cars became an actual necessity. Car production increased vastly and our exports increased in a hitherto undreamed of manner. The following summary completes the figures given in the table of production and exports up to the first of the present year:

Year	American Production	American Export
1910.....	1,974,016	94,904
1920.....	2,205,197	183,660
1921.....	1,661,550	42,657*
1922.....	2,639,373	104,575*
1923.....	4,095,102	315,381
1924.....	3,640,108	367,348
1925.....	4,314,746	510,000

* Result of unabsorbed shipments in the two post-war years.

The economies in motor manufacture, brought about by the development of more efficient machine tools and manufacturing processes, created prodigious economies. Thanks to these economies, and in spite of the general higher cost of labor and raw material, the value of the automobile dollar, based on prewar values, increased to \$1.16 on January 1 last, while the cost-of-living dollar on the same date was worth but fifty-nine cents.

The table shows the average factory value of cars and trucks produced in 1914 and 1925.

Year	Production	Wholesale Value	Average Value
1914...	569,054	\$458,913,843	\$807
1925...	4,336,754	2,977,904,833	687

With our continued prosperity, our home markets have broadened. Our higher standard of living has created demands not heretofore thought possible. The motor car has become a part of the everyday life of the banker, the farmer, the executive, the laborer, and even of the school child.

Through the possibility of financing deferred payments by the purchaser, the payment in cash to the manufacturer has been made possible and this foundation of the growth and success of the motor car manufacturers has been extended and made secure.

MOTOR TRUCK DEVELOPMENT

The successful use and operation of motor transport in war and under conditions not previously attempted, leveled many of the old obstacles. Motor trucks became a large and growing factor in our economic growth, and production had to be increased to meet the ever growing demand. The record of American truck production and quantities exported tells its own story.

Year	Production	Exported
1918.....	227,250	10,309
1919.....	316,364	18,937
1920.....	322,039	34,078
1921.....	147,550	8,901
1922.....	253,552	14,067
1923.....	391,548	37,298
1924.....	377,344	40,124
1925.....	496,998	74,770

In the great undeveloped countries and in backward lands, there has arisen the need of transport which is faster than the horse, the mule, the camel, or the ox. Where there are no railroads, roads are constructed, and roads mean motor cars, if, indeed, at times motors do not appear before the roads, for the passenger car, ever a blazer of trails, has been driven through all sorts of country, everywhere, creating new

demands for more and better roads. With better roads have come more cars, improved transport, and consequent economies.

ROAD DEVELOPMENT AT HOME AND ABROAD

In order partially to visualize the potentialities overseas for the distribution of American cars if road construction is fostered, it might be well to call attention to the road development which has taken place within recent years in the United States. Not many years ago—so few indeed that the youngest reader of this article can remember—our country had but a limited number of improved suburban roads.

Our railroads were built years before improved highways were seriously considered. We seemed, with our slow method of individual transportation, not to require through highways. What did it matter if every spring we were "mired to the hubs"? Crops were not moved in the spring, anyway.

Then along came the motor car. Its economies were forcibly brought to our attention. Even where roads existed only in name the motor car asserted itself and stridently demanded favorable notice. Better means of communication, facilitated by the creation of improved highways, became a subject of debate and legislation. The motor car is directly responsible for the improvements in our road system and motor car progress has been synonymous with the betterment of our roads.

Appropriations of public monies for the permanent improvement of highways were in the motor car's early days difficult to obtain. The economies made possible by good roads had not been sufficiently recognized, but by consistent and untiring effort public opinion has been moulded until to-day road-building activities employ thousands of men and almost countless tools

and machines. In 1924 over 45,000 miles were permanently improved at an expense of \$1,181,521,000.

Much, however, remains to be done, as indicated by the table below, which strikingly brings to our attention the important part transportation takes, and will continue to take, in the life and progress of our country.

Who can predict the years which will elapse before all avenues of highway transportation will have been permanently improved? And by how many motor vehicles will these improved highways be used?

but 10,733 miles of roads passable throughout the year, and only 1477 miles of improved roads. One thousand seven hundred and nineteen additional miles are now under construction, and 5931 miles of improved highway are projected.

There are great road-building activities in Peru, in Chile, in the Argentine, in Venezuela, and throughout South America. Cuba plans the expenditure of \$350,000,000 on public works, the larger portion to be spent for a central road throughout the length of the island. To-day, because of bad

RURAL ROADS IN THE UNITED STATES AT THE END OF 1924—IN MILES

	Unimproved	Graded	Surfaced	Total
State.....	96,094	35,279	128,347	259,721
County and Local.....	2,202,622	201,015	339,559	2,743,195
	2,298,716	236,294	467,906	2,999,916

ROAD BUILDING ACTIVITIES IN 1925 (PARTIAL)—IN MILES

	Partially Graded	Graded and Drained	Surfaced	Total	Grand Total
State Systems.....		5,316	17,836	23,152	
Rural (Reported).....	6,407	7,732	14,333	28,472	51,624

Insofar as road building overseas is concerned, the interest and activity in one country in this regard is an indication of what the future holds in countries now without improved roads or with very few miles of good roads. Brazil, for instance, a country among the first to be settled in South America, absolutely neglected its transport by road because of physical and economic barriers, now feels the need of an adequate road system. Like all other countries to the south of us, it must develop its resources and get its products out of the interior, down to the sea, and into world markets. It has

roads, it costs more to bring a shipment of goods by road from Santiago to Havana than from Chicago to the Cuban capital by the usual methods.

The leading markets for United States manufactured passenger cars and motor trucks from 1921 through 1925 were as shown on following page.

FUTURE MARKETS

The future motor market will not be in our own country alone, but in every growing country of the world. And these markets will be there as long as motor cars are being sold.

True it is that means must be pro-

THE TEN LEADING MARKETS FOR UNITED STATES PASSENGER CAR AND TRUCK EXPORTS
(COMBINED) IN THE YEARS FROM 1921 TO 1925, INCLUSIVE, ARE AS FOLLOWS

Year	First	Second	Third	Fourth	Fifth
1921.....	Mexico	Canada	Australia	Japan	Cuba
1922.....	Australia	Canada	Mexico	Belgium	United Kingdom
1923.....	Australia	Canada	Belgium	Japan	United Kingdom
1924.....	Australia	Argentina	Canada	Mexico	Cuba
1925.....	Australia	Argentina	United Kingdom	Brazil	Mexico

Year	Sixth	Seventh	Eighth	Ninth	Tenth
1921.....	United Kingdom	Dutch East Indies	Sweden	British India	New Zealand
1922.....	Sweden	Spain	Argentina	B. South Africa	New Zealand
1923.....	Mexico	Sweden	Spain	Argentina	Cuba
1924.....	B. South Africa	Japan	Brazil	United Kingdom	Spain
1925.....	Canada	Italy	B. South Africa	Denmark	Cuba

vided for financing road building and motor car purchases. Those countries holding the greatest store of natural resources present the greatest possibilities. Wherever man exists, there also will exist the need of transportation.

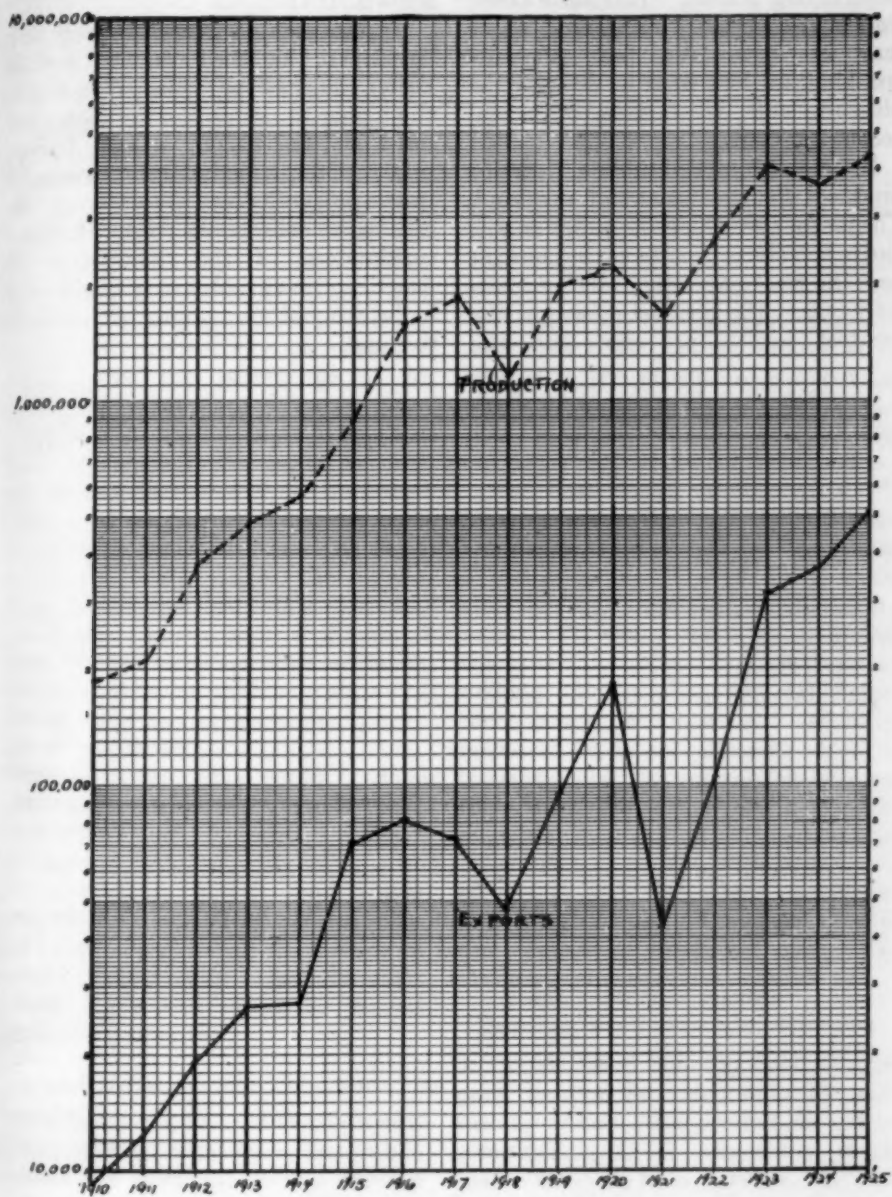
The motor car, together with good roads, produces greater commerce; and greater commerce produces greater peace, prosperity and progress.

Naturally with the revival of European industry and the rehabilitation of war-stricken lands we shall find a growing competition from the overseas motor manufacturers. In Europe, however, the development and the use of the motor car have been along lines rather different from our own. Due to higher operating costs and taxes the European produces a smaller vehicle of lower horsepower and with well-defined limitations for his home markets. These vehicles require smoother highways and

the constant attention of driver and mechanic, a drawback from which the American motor car does not suffer. The American motor car manufacturers appear to have the matter of continued success largely in their own hands. They seem amply able, by present and past records of accomplishment, to maintain their leadership.

Outside of America fuel costs are higher; the cost of labor is lower. The Continental manufacturers may construct a type to compete with us, measured by cost of maintenance, but they cannot compete with us on first cost. We, through large home market requirements, produce in large volume and through the use of modern machinery, at a lower unit cost, notwithstanding our high labor cost.

It is often erroneously asserted by peoples of those countries less successful commercially than ourselves, that the American is solely interested in the



AMERICAN AUTOMOBILE PRODUCTION EXPORT TRENDS (UNITED STATES AND CANADA)

pursuit of the dollar and is less mindful of those things of greater uplift and more lasting benefit. In this the American is most unjustly maligned. There may be exceptions, but, generally speaking, he does what he does for the pleasure and satisfaction of actual accomplishment.

In her automobile building, America produces for the benefit of mankind. The motor car, which she builds so well and in such huge quantities, has been at once the greatest economizer, the greatest pacifier, the greatest educator, the greatest health provider, and the

greatest means of raising the standard of living, that the world has ever known.

As the greater overseas areas are developed, as their people become better educated and more interested in the higher things of life, the motor car must continue to play a more important part than ever before in the world's peace, prosperity and progress. There can be no reasonable doubt that the continuance of the domination of American-made motor cars would seem to be assured throughout generations to come.

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Electrical Equipment—Present Status and Future Development

By E. M. HERR

President, Westinghouse Electric and Manufacturing Company

THE annual production of electrical machinery, apparatus, and supplies in this country now reaches about one and a half billions of dollars. Ten years ago it was about one-third of this volume. During this decade the nation's whole productivity has advanced about twice the percentage of its increase in population.

While this improvement in our national efficiency is due partly to new mechanical devices and to improved methods of manufacture, as well as to the progress which has been made in the elimination of waste, the biggest single factor has been the more extended use of power in place of manual labor; and yet there are more workmen than ever, each one producing more and earning more as the mechanical power behind him increases.

Of course very little could be done with mechanical power alone between its source and its outlet. When we learned how to convert it into electrical energy, how to send it over wires for distances of hundreds of miles, and how to use it for all manner of purposes, then really began the great industrial era with which the present generation is familiar.

ANSWERING PUBLIC DEMAND

And this is the basis of the electrical manufacturing industry—the public demand for electrical service for use everywhere—in manufacturing, in transportation, in illumination, in the home. It typifies, perhaps more than anything else, our standard of living.

This demand has increased fourfold

in the past ten years. New uses for electrical service are constantly being found, such as industrial heating, wireless transmission, electric household refrigeration, and many others, all stimulated by the constant improvements in efficiency of the apparatus, as well as in the manner of using it, at which the engineers are at work all the time, resulting in lower costs to the public.

The cost to-day of electricity for illumination is about twelve and one-half per cent less per kilowatt hour than it was in 1915. Why is this so when almost everything else that we use costs more? The plant, the equipment, and the labor, as well as the fuel used in making this current, all cost more. Steel, copper, wood, cement—all have increased in price. Despite all this, the cost of electric service is less because there is more of it used, and it is made in greater quantity by much larger and more efficient plants, with a demand of greater diversity, which provides a better load factor. The engineer and the economist have outwitted the market quotations.

REASONS FOR CONTINUED GROWTH

The electrical industry continues to grow because it is economically and socially sound. Its product is not a commodity. It is something more than that. It is a service. It has been so interwoven with the lives of our people and has become so indispensable to their comfort, convenience, efficiency, and happiness that one can hardly separate any of its phases from

the thought of public weal. Moreover, it is sound financially and politically. It is supervised by the state governments so that the public and the service are alike protected; and its securities, founded upon these sound basic conditions, are favorably regarded.

Will its growth continue? Are we approaching the point of saturation? A natural enough question with any industry that has shown such stupendous growth. The industry is now about forty years old. The population in the United States still unreached by electric service amounts to about thirty million people. We have developed less than twenty-three per cent of our minimum potential water power. Thirty-five per cent of the industrial power of the country still remains unelectrified. The central station industrial field is at present less than forty per cent developed. We are now wasting, in the small, inefficient plants of this country, nearly one-half of the fuel that is used for power purposes—a waste that amounts to something like one hundred and fifty million tons of coal annually. The electrification of our railroads has only begun. The interconnection of our present power system, some six thousand in number, is in its infancy and will grow until there is a country-wide system, bringing the benefits of electric service within the reach of everyone.

The substantial evidence, therefore, of the things which we know must be done, and which we know how to do, justifies the belief that we shall have to create, within the next ten or fifteen years, new electrical facilities equal to all the facilities which exist to-day and which have required forty years to build up.

There are many ways in which the increased use of electrical energy can be brought about. Lower cost is one way, and a very important way to stimulate

a greater use of this tireless worker, always at command, and whose ways of serving us are as varied as are our many and rapidly increasing needs.

RESULTS OF DECREASED COSTS

While decreased cost of electrical energy will at once increase the number of users, in some communities the number of buildings served is rapidly approaching one hundred per cent, and there is a feeling that the point of saturation in this country is rapidly being reached. The solution is through education—not only must more homes be supplied with this beneficent agency, but in those which are now being served, more uses for electricity must be found. Not only must a systematic way of informing and educating the public in the many different uses of electricity be worked out, but by an intensive selling and educational campaign they must be made to feel the need of more and more uses for electricity in the home, in the office, and in the shop. They must be made to realize that electricity is not an expense, but on the contrary is a most potent agency in the real economy of living and in household administration.

It is estimated that the cost of electricity in the ordinary household is less than one and one-half per cent of the family income. When one realizes the saving in time, the conservation of nerve force, and the increased satisfaction from better living conditions, made possible by the use of electricity, it should not be hard to justify an increase in the budget for electrical service to from five to ten per cent of the family income.

The United States, with the highest paid labor in the world, is exactly the place where the incentive to expand the use of labor-saving devices is strongest. Here we are feeling more and more the

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urge to reduce the physical labor of the worker, thus providing a very wide field for labor-saving devices. But to be practicable, these devices must be of low cost. With our high priced labor, how can this requirement be met? Fortunately the field is so large that quantity manufacture can be undertaken, with all the cost-saving possibilities to which intensive manufacture of this kind lends itself. Not only must devices of this kind be made at low cost, but as they must be attached to the transmission system of the great public utility companies, they must be well made and so designed as to function safely and reliably. After all these requirements are met, an intelligent and well-trained force of workers must be employed. Fortunately our people meet this requirement; and nowhere in the world have workmen as much power—principally electric—at their disposal as here in the United States. This adds enormously to the possibility of a large output per man, so that, coupled with the well-known superior energy of our workmen, and with the aid of a reasonable protective tariff, competition of lower paid labor is not serious.

Reduced cost of electric current, the importance of which has been stressed above, can also be obtained by improving the load factor of the generating plants, that is, by producing more kilowatt hours per kilowatt of plant capacity. This can best be done by seeking out and building up more and more the off-peak load. The possibilities of off-peak load have not in the past been studied as diligently as they should have been and as they will be in the future. For this work men of good caliber and ability are needed; and the vigorous campaigning of such men for off-peak business will result in a sharp upturn in the curve of annual kilowatt-hour output and a

notable corresponding reduction in the cost.

With the lower costs will come wider and more general extension of transmission lines. The general interconnection of generating systems tends to further economies and reduction in cost.

The widespread extension of transmission lines increases the possibility of serving the farmer and a vigorous movement is now under way to reach the farmers on the six million and more farms in this country as rapidly as may be.

On the farm physical labor has been the hardest, as it has been necessary to work under conditions of very great discomfort. This is true not only of the men on the farm, but of the women also, who have often lived lives of great drudgery. Electricity can lessen and is lessening the work in the laundry, the kitchen, and the dairy, and relieving the women as well as the men on the farm of a very large portion of the hard labor.

PROGRESS IN THE FOREIGN FIELD

The foregoing deals particularly with the development of the electrical industry in the United States. Electrical manufacturers in America are also greatly interested in the development of foreign business. No other country in the world has an electrical manufacturing industry approaching in importance that of our own. The capacity of the generating stations alone in the United States is almost one-half of the generating capacity of the whole world.

The rate of progress in some countries, particularly Japan, has been very rapid. This is bound to increase as time goes on, as people all over the world are demanding higher standards of living and labor-saving devices of all kinds. This foreign demand opens up a wide field for export trade. While at

the present time exports of electrical product represent only a small percentage of the total production, nevertheless they may be said to have almost kept pace with the growth of the industry. During 1925 the value of electrical machinery and supplies exported was \$73,600,000, more than two and one-half times the exports in 1923. The trend has been steadily upward for some time and should continue.

Our principal foreign markets are Canada, Japan, Mexico, Australia, Great Britain, Brazil, Argentine, Cuba, Chile, France and Spain. The type of equipment in demand is power transformers, large motors, generators, switching equipment, radio apparatus, telephone apparatus, and wiring supplies.

The principal countries of the world are well aware of the tremendous electrical development in the United States and are taking steps to encourage this development in their own countries. Many have gone as far as, if not farther than, we in rural electrification and are now taking steps to promote the consolidation of public utilities into super-power systems.

This will all help to increase our exports, as the art in this country seems to develop more rapidly than in other countries, and as the desire is always to procure the latest that the industry has to offer, we are able to sell even against low-price local competition.

EXPORT PROBLEMS

The problems encountered by the American exporter of electrical apparatus in building up a foreign business are many. He must do what he can to eliminate the barriers of national sentiment, which are strong in some countries, and he must also overcome the feeling of resentment caused by our high tariff wall and the natural preference of foreign customers to trade with

the mother country. In addition, he must contend with low manufacturing costs, a demand for apparatus that is special with him and standard with European manufacturers, and the long terms granted by foreign bankers and manufacturers.

These are the broader problems, and perhaps the hardest to overcome. There are many others, but with a carefully trained staff, backed by the necessary support from the home organization, there is no reason why our exports of electrical apparatus should not keep pace with the growing demand.

THE FUTURE

All this is apart from the speculative field of invention, with all that it has meant in the past and may mean in the future. One who has lived through the past forty years of scientific and engineering accomplishment would hesitate to venture any opinion as to what invention and ingenuity may still do for us. Suffice it to say, we are striving harder than ever before. Our laboratories are dotting the land. Their equipment has never been so complete. Devoted and able men are swelling the ranks of our research forces. Enormous sums of money are being expended to advance the art and to cheapen the service of electric supply. Assuredly the industry is giving full encouragement to the progress of scientific achievement. But we must do more than this. We must deal with the plain business and economic problems that exist and are a natural result of the industry's rapid and tremendous growth. Great savings can still be made by devising other means of reducing costs through the inauguration of more efficient methods of distribution and simplification of standards;—in other words, by addressing ourselves to the refining processes which natu-

rally follow a pioneer period. The industry is proud of its record. It has done much for human life; much to lessen the problems of increasing populations. But those who have been

identified with the work see very clearly that the ground is not yet half covered. There is still plenty to do, and we are seeing to it that the men who are coming along will be splendidly equipped to do it.

Handicaps in Selling American Locomotives Abroad

By E. S. GREGG

Chief, Transportation Division, Bureau of Foreign and Domestic Commerce, Washington, D. C.

FOREIGN trade is considered by the uninitiated as a form of mystery. As a matter of fact, the same principles applied by our locomotive salesmen in this country are used by our salesmen abroad. In selling motive power to railways, quality or performance is always of greater weight than price. And since a railway engine is a complicated mechanism, exact comparability of design and hence of price as between two manufacturers, even in the same country, is not the common thing.

The sale of American locomotives abroad is rarely, except within broad limits, on a purely price basis. Special design for particular conditions, time of delivery and terms of credit are of greater importance, perhaps, in the sale abroad of locomotives than for the majority of our exported commodities and certainly with great frequency outweigh price.

In recent sales to India, special design played a leading part. India, like the United States, is a country of great distances. Our ordinary types of locomotives are much better adapted for service in India than most of the types used in Great Britain. We do not find it necessary to use the copper fire-boxes upon which the engineers for the India railways usually insist. Our locomotives can be run over 200-mile divisions, something that surprised the Indian operators. Our motive power is made to pull heavy trains. All of these factors have been influential in opening the India market to our locomotive manufacturers.

A second point about our foreign trade in locomotives is that our ex-

porters find it difficult to sell their product to railways owned and controlled by our European competitors. One of the obstacles to our manufacturers in the India market is the fact that British capital controls the railways and British engineers, in the main, run them. The same condition obtains quite largely in other countries. Our locomotive builders have sold practically nothing to the British-owned railways in the Argentine. This preference of British or French engineers for British or French products is natural. In the Central American region, where American capital and men have constructed and run railways, our locomotives are given a preference. One reason our export trade in locomotives is so small is because American capital and skill have not gone abroad in large quantities.

In some countries where the government owns and operates the railways, extra political difficulties are encountered. It has been said that contributions to the political party in power have secured locomotive orders for the contributors in spite of high prices. It is alleged that in a few cases information as to bids of others has been given to certain competitors so that they could put in the lowest bid. But all these extraneous influences are perhaps not large in the aggregate and the fact remains that American locomotive builders, on the basis of quality of product, terms of credit, time of delivery and often in price, can easily compete with foreign builders. The special factors pointed out, however, usually operate against them.

Our export trade in steam locomotives

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tives is not as large as to quantity ordered as before the war, although the value, because of the general rise in prices, is higher. Our trade in electric locomotives, however, has rather steadily increased since 1912, when the figures for this class for the first time were segregated. Table I shows our export record in steam and electric locomotives since 1910:

power in this country. Of course, it is impossible to establish a definite trend in locomotive exports to particular countries year by year. A large order for locomotives may be placed this year and none whatever for three or four years. Consequently, the figures for three prewar and three post-war years are given in Tables III and IV.

Apart from the factors outlined in

TABLE I—U. S. EXPORTS OF STEAM AND ELECTRIC LOCOMOTIVES 1910-1925

Year	No.	Dollars	Year	No.	Dollars
1910.....	310	2,404,619	1910.....	(Not available)	
1911.....	416	3,953,648	1911.....	"	
1912.....	342	3,120,397	1912.....	18	88,902
1913.....	622	6,442,641	1913.....	38	273,516
1914.....	373	3,526,147	1914.....	48	437,452
1915.....	228	2,115,866	1915.....	43	324,478
1916.....	799	12,665,877	1916.....	62	452,324
1917.....	1,442	18,243,248	1917.....	73	563,350
1918.....	1,457	35,889,632	1918.....	39	161,453
1919.....	959	30,275,728	1919.....	68	835,978
1920.....	1,711	53,629,847	1920.....	64	880,430
1921.....	1,012	33,090,331	1921.....	88	2,120,712
1922.....	376	8,663,764	1922.....	71	1,078,207
1923.....	266	4,421,936	1923.....	151	3,314,367
1924.....	320	5,649,456	1924.....	167	2,243,040
1925.....	362	7,022,123	1925.....	101	812,321

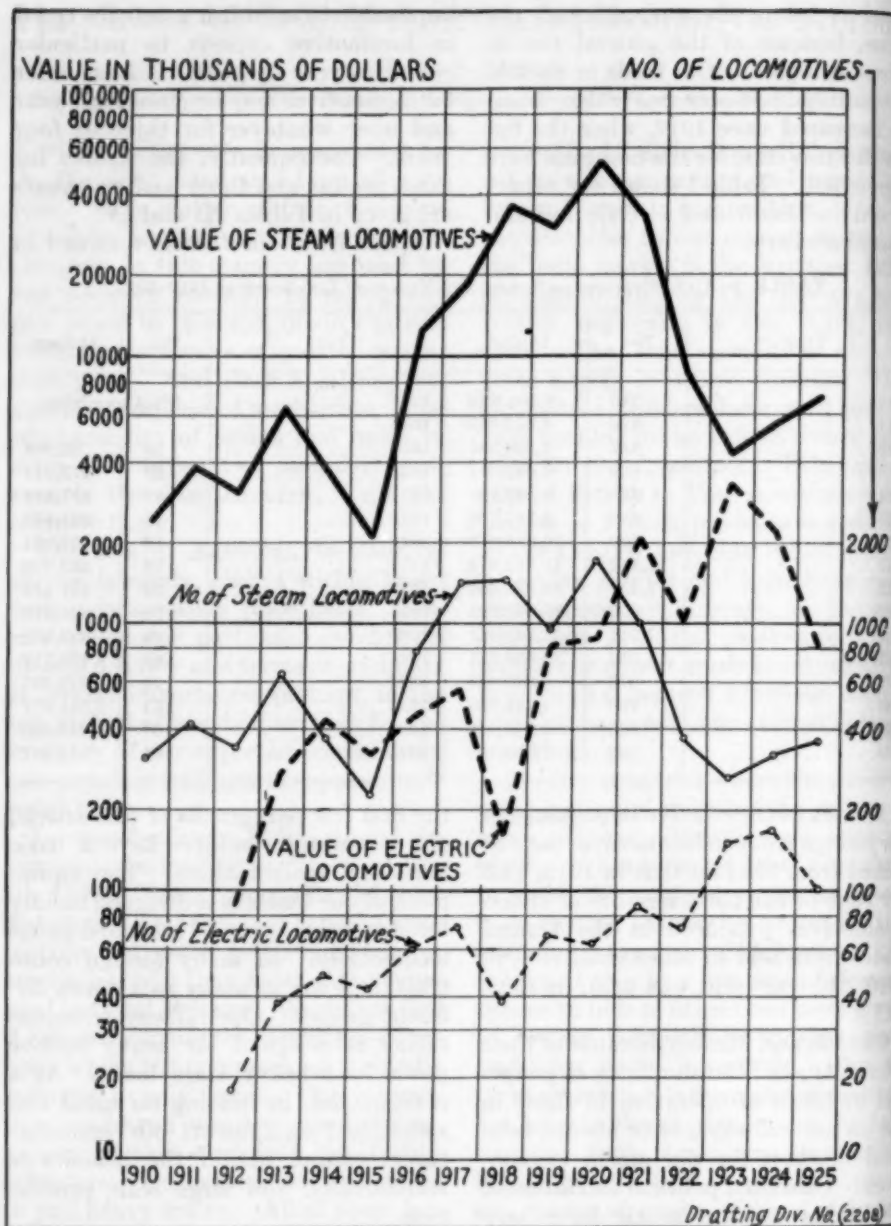
An idea of the relative importance of our foreign trade in locomotives may be gained from the fact that in 1913, 14.5 per cent of the total number of steam locomotives produced in the United States were sold in other countries; in 1920, the per cent was 45.0; in 1925, 11.1.

Canada and Mexico, because of their proximity, and the similarity of gauges and methods of operation to those in use on our railways, have always been good markets for our steam locomotives. Unsettled political and financial conditions to the south have seriously hampered the purchase of locomotives in this country in the last few years. Of the countries overseas from the United States, Brazil has consistently been a good purchaser of motive

the first few paragraphs of this article, our locomotive builders have a basic handicap against them. The equipment of our builders is designed mainly for American types of standard-gauge locomotives. In many foreign countries there are as many as a dozen different gauges. Our railway transportation is designed for heavy motive power and heavy train loads. As a consequence, in bidding on small and specialized equipment, our manufacturers cannot obtain the benefits of standardized and large scale production.

It should be pointed out, however, that in the competitive bidding abroad in the last five years the locomotive companies of the United States have practically never been the highest bid-

TABLE II



U.S. EXPORTS OF STEAM AND ELECTRIC LOCOMOTIVES

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TABLE III—U. S. EXPORTS OF ELECTRIC LOCOMOTIVES INCLUSIVE OF RAILWAY, INDUSTRIAL AND MINING TO FOREIGN COUNTRIES FOR THE CALENDAR YEARS INDICATED

Exported to	1912		1913		1914		1923		1924		1925	
	No.	Dollars	No.	Dollars	No.	Dollars	No.	Dollars	No.	Dollars	No.	Dollars
Canada.....	8	46,745	21	146,458	12	27,623	4	48,922	3	10,588	9	26,940
Chile.....	3	17,694	5	16,918	2	4,112	42	2,126,230	6	45,364	18	95,525
Brazil.....	2	9,615	1	7,000	..	..	..	..	7	273,000	4	189,291
Japan.....	..	..	..	..	..	..	59	265,105	55	228,750	11	78,618
Spain.....	..	..	1	3,924	..	..	9	490,028	2	19,525	..	..
Mexico.....	2	5,987	2	4,524	..	..	17	51,028	31	1,452,752	15	156,696
Australia.....	1	3,306	..	..	1	5,358	..	..	12	21,991	1	8,110
British So. Africa.....	..	..	..	..	..	..	7	22,205	19	73,092	22	83,671
All others.....	2	5,555	8	94,692	33	400,350	13	310,759	32	117,978	21	173,470
Total.....	18	88,902	38	273,516	48	437,452	151	3,314,367	167	2,243,040	101	812,321

TABLE IV—UNITED STATES EXPORTS OF STEAM LOCOMOTIVES
1912-14 and 1923-25, Calendar Years

Exported to	1912		1913		1914		1923		1924		1925	
	No.	Dollars	No.	Dollars	No.	Dollars	No.	Dollars	No.	Dollars	No.	Dollars
Canada.....	107	472,046	160	1,182,993	86	502,253	72	1,141,464	56	357,079	55	822,430
Mexico.....	13	115,221	16	84,241	5	42,300	14	94,801	61	1,811,442	30	247,548
Argentina.....	1	9,986	..	..	2	25,600	3	65,160	10	247,287	..	..
Brazil.....	92	1,251,824	210	2,310,853	66	637,528	29	583,856	37	740,029	86	1,945,094
Chile.....	9	56,981	18	202,753	23	190,944	28	749,883	8	209,678	31	738,907
Colombia.....	5	40,030	5	42,821	10	83,645	7	137,112	8	142,027	7	107,782
Peru.....	4	13,750	7	89,540	9	96,116	4	52,335	11	138,341	6	115,679
Cuba.....	31	280,786	44	382,206	61	678,615	26	473,494	33	590,575	52	1,100,767
Honduras.....	..	..	5	26,650	12	67,275	13	181,058	1	5,900	..	..
China.....	3	55,125	9	129,075	20	328,629	1	80,000	1	16,000	1	8,150
Japan.....	15	138,511	79	1,302,346	5	51,700	20	171,845	23	95,709	8	26,760
British India.....	..	..	..	..	1	12,150	3	43,572	16	385,220	4	104,600
Philippine Islands.....	1	4,922	37	468,058	2	13,650	2	33,020	11	98,400	8	104,066
All others.....	61	681,215	32	221,105	71	795,742	44	614,336	44	801,769	75	1,700,340
Total.....	342	3,120,397	622	6,442,641	373	3,526,147	266	4,421,936	320	5,639,456	363	7,022,123

ders. In most cases their quotations have usually been the lowest or close to that of the successful bidder. The keenest competition our locomotive manufacturers have had to meet has been from Belgium, Germany, France, Italy and Great Britain, somewhat in the order named. Strangely enough, in bids to railways not controlled by British capital, the British bids have uniformly been the highest. It is worth mentioning that even when foreign countries are successful in getting competitive orders, American parts and attachments are frequently specified.

Broadly speaking, a great improve-

ment in the efficiency of locomotives has been achieved in this country in the last five years. Through the use of boosters, superheaters, better grate space, etc., our newer locomotives burn less fuel per unit of power delivered. This increase in efficiency has really meant that our railways have needed fewer locomotives. As a consequence, the builders have been keenly pressed for business and have made drives for foreign orders. This pressure to export is likely to increase. It is probable that our locomotive companies will compete vigorously for a share of the locomotive business of the world.

Farm Equipment and Export Trade

By H. J. SAMEIT

Secretary, National Association of Farm Equipment Manufacturers

IN agriculture, as in all other industries, competition is forcing the adoption of modern, labor-saving methods and the more extensive use of efficient and cost-reducing machinery.

Particularly is this true of the American farmer, because his higher standard of living makes it imperative that he rely upon machines rather than upon high-priced help if he is to stay in the profit-making class—and there is such a class, despite the depressed condition of our basic industry at this moment. “Gold medal farmers,” men who have been honored by their respective states for growing 100 bushels of corn, 40 bushels of wheat, or 300 bushels of potatoes per acre, tell us farming can be made to pay, but that modern methods and the use of improved machinery are as necessary in agriculture as in any other business.

Indeed, the commanding position of our farmers, compared with the status of those elsewhere, may be attributed in large measure to what Secretary of Agriculture W. M. Jardine has termed “the most impressive development of all time in agriculture, namely, the advent of farm machinery”¹; while President Coolidge has credited “the marvelous inventions of farm machinery” with helping “to establish here the first agricultural empire which did not rest upon an oppressed peasantry.”² Not only did American agriculture make greater strides in the few short decades immediately following the introduction of machine methods

than agriculture the world over had made in fifty long centuries, as the Secretary of Agriculture has pointed out, but it has been the constant improvement in such equipment that has enabled the American farmer to keep one jump ahead of his enterprising competitors in such progressive countries as Argentina and Australia, where land is cheap and labor plentiful.

POWER FARMING—A PEACEFUL REVOLUTION

That the American farmer has been able to maintain his position in the front ranks, during recent years is, perhaps, due to the more general application of power farming methods in this country than in other lands. Since the advent of the tractor, early in the 20th century, the use of larger tillage units, allowing the farmer to farm more acres in a more intensive manner, has been a notable development.

In some respects, this rapid swing toward use of power in farming has been a revolution in agriculture, but so peacefully has this revolution been effected that many of us have scarcely realized its full significance. Nevertheless, it has been the constant progress in the application of mechanics to agriculture that has released labor from the farms, to be absorbed by other industries as needed, until to-day less than thirty per cent of our population produces the food that is consumed by the other seventy per cent; whereas, only a century or so ago, ninety per cent of the people of the United States were occupied in raising the barest of food essentials.

¹ Address before Natl. Assn. of Credit Men, N. Y. May 25, 1926.

² Address before American Farm Bureau Federation, Chicago, Ill., Dec. 7, 1925.

ACCOMPLISHMENTS

Perhaps a few illustrations indicating how tractor farming has multiplied man's capacity, speeded up his operations and lowered his production costs, may not be amiss. According to competent authorities, one man and two horses, with a twelve-inch walking plow can handle about 1.6 acres a day. One man and a tractor, pulling a three-bottom gang plow, can handle from eight to ten acres a day. In harvesting wheat, one man with four horses and a seven-foot binder can cover about fifteen acres a day; with a tractor and an eight-foot binder he can cover from twenty to twenty-five acres; with a ten-foot tractor binder, thirty to thirty-five acres; with a combine (harvester-thresher), which cuts and threshes the grain in the field, from thirty to seventy-five acres a day.

Another way to visualize this trend toward reduced costs through utilization of labor-saving machines is to compare the expense of harvesting and threshing by ordinary means with the "combine" method.

	Cents per Bushel
Cost of harvesting and threshing by ordinary machine methods	22.6
Cost of harvesting and threshing with combine (harvester-thresher)	3.4
Saving, new method over old	19.2

Small wonder that the American farmer is demanding modern machinery and that the American farm equipment manufacturer is building it!

Looking at the situation from still another point of view, it requires three hours and three minutes to produce a bushel of wheat by hand methods. To harvest it with a binder and thresher, it takes nine minutes and fifty-eight seconds. With a combine, the man-labor per bushel drops to less than three minutes.

Even more striking, perhaps, is the following computation showing the saving effected by producing the 1925 crops by machine instead of by hand methods: Using the 28-year-old estimates of the Bureau of Labor as to the time required to produce an acre of corn, oats, barley, wheat, cotton, rye, hay and white potatoes by machine methods, it is found that had these eight crops been raised by hand in 1925, the additional cost to producers would have been \$3,889,222,905, figuring labor for all crops but cotton at \$3.00 a day, and \$2.00 a day for cotton-field help. The time saved amounted to 1,432,866,135 days; and this computation takes no cognizance of the fact that machine methods have improved marvelously since 1896, the last year that the Bureau of Labor made its estimates.

Professor J. B. Davidson, of Iowa State College, puts the economics of modern farm equipment in an effective form when he says:

Power has always been in America a cheap substitute for labor. As a motor, man is hopelessly outclassed. A good husky man is able to develop about one-tenth of a horse power. With horse power at ten cents per hour, his value as a motor is one cent an hour.

The relation between power and production in agriculture is very clearly shown in a chart from Bulletin 1348, U. S. Department of Agriculture. It is to be noted that there is a very definite relationship between the value of the crops produced per agricultural workers in the various states and some of the foreign countries and the amount of power used.

"If there is a more significant relationship in American agriculture," says Professor Davidson in referring to the table, "I do not know of it."

The extension of power farming has also contributed to the movement toward larger farms, to which the present Secretary of Agriculture has called

(Table from U. S. Department of Agriculture
Bulletin 1348, p. 17)

	Horses per Worker	Value of Primary Production per Worker
Italy.....	.19	\$45.00
France.....	.37	90.00
Germany.....	.55	119.00
United Kingdom.....	.88	126.00
United States..	2.05	292.00
Alabama.....	.81	112.00
New York.....	1.09	250.00
Iowa.....	3.86	595.00
Nebraska.....	4.71	910.00

attention. In 1910, the average farm contained 138.1 acres. In 1920, it contained 148.2 acres. To-day, many farmers are handling from forty to eighty acres more with their power farming equipment than they could with their former tools, and doing this without any additional hired men.

While the use of tractors and tractor-drawn machinery has been steadily increasing for many years, the greatest strides have been made during the post-war years when farmers have been called upon, as never before, to keep down their labor costs, until now it is conservatively estimated that tractors or tractor-operated equipment account for at least one-half of the industry's total sales volume for the industry. What this means in dollars and cents is indicated in the preliminary figures on 1925 production and sale of farm equipment, only recently released by the Bureau of the Census. These statistics show the wholesale value of farm machinery produced last year to be \$365,144,000, compared with \$329,170,367 for the year before.

In every branch of the industry, this same trend toward the use of labor-saving and cost-reducing equipment is noticeable.

A few illustrations will suffice: In the dairy districts, for example, the farmers

are finding it advantageous to install sanitary equipment in the barns, to use milking machines instead of hand methods; to feed silage instead of more expensive and less efficient feeds. In the corn belt, tractors and other labor-saving equipment are found on most of the farms operated by the "gold medal farmers." Spraying, which formerly was considered to be necessary only for orchardists, is now being done by poultrymen and hog raisers and others who appreciate that sanitation spells profits to them. Similarly, gas engines are being put to a score of tasks that men—or women—formerly performed.

So it is with other lines—everywhere a demand for new and improved equipment. Indeed, new markets in the United States are found, to a large extent at least, new uses for machinery or new machines built to meet the new requirements.

Yet in spite of the improvement in farm machinery (for example, compare the ponderous locomotive-like tractor of a decade ago with the smaller efficient tractor of the present day), and notwithstanding the increased cost of manufacture, the National Industrial Conference Board, in its report on "The Agricultural Problem in the United States" (April, 1926), presents a table giving the index number for farm machinery and repairs in 1925 as 135, using prices prevailing in 1914 as a base of 100. For farm products, the index number is 144 (U. S. Department of Agriculture figure, based upon prices of thirty items).

SIMPLIFICATION BIG FACTOR

How have manufacturers of farm equipment managed to bring down the price level to an average nine points below the average of farm products?

To some extent, at least, a concerted effort on the part of all com-

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panies to simplify their lines, to eliminate the unnecessary sizes, styles and varieties, has been responsible. This eliminations program, begun prior to the World War, was given impetus during that period, and has been continued since then in co-operation with the Department of Commerce with notable progress being made from year to year.

Perhaps the achievement of the manufactures of plows and tillage implements in this field of voluntary co-operation may serve to illustrate what has been accomplished in the industry:

must be used, and the consequent demand for special equipment. Nevertheless, the mass production idea is utilized to great advantage, with the result that American-made machinery can be offered the foreign farmer at attractive prices, when efficiency of the machine and quality of the product are considered.

The result is that America leads in the sale of implements overseas. Foreign countries are taking American farm equipment in increasing quantities, despite the fact that the price of the machine purchased abroad is

Implements	Sizes and Types 1914	Sizes and Types 1926	Number Eliminated	Per Cent Eliminated
Walking Plows.....	209	30	179	86
Riding Moldboard Plows.....	47	18	29	62
Corn Planters and Seeders.....	1116	18	1098	98
Tractor Moldboard Plows.....	21	14	7	33
Stalk Cutters.....	16	6	10	63
Peg-tooth Harrows.....	44	12	32	73
Disc Harrows.....	156	50	106	69
Land Rollers.....	44	4	40	90
Spring-tooth Harrows.....	44	23	21	48
Drills and Seeders.....	240	38	202	84
Cultivators.....	180	14	166	92
Drill and Seeder Attachment (Disc Harrows)....	18	0	18	100
Middle Breakers and Listers.....	21	28	Plus 7	Plus
Totals.....	2156	255	1901	88.1%

In one item only was there an increase in sizes and styles, and this was due to the improved methods of listing.

This compilation carries its own story:—less money tied up in inventory; fewer small runs on unprofitable items; decreased production costs; improved equipment for the farms.

U. S. LEADERSHIP IN EXPORT FIELD

In the export field, there has been no attempt to undertake a program of simplification, due to the varying conditions under which the implements

greater than the price the American farmer pays for a similar article, because of the added expenses due to packing, transportation, insurance, import duties, etc.

Some idea of the way in which farmers in foreign countries are absorbing exports by American farm machine manufacturers can be gained from the reports of the Bureau of the Census. In 1921, domestic sales amounted to \$222,908,000 in round numbers; exports to \$21,663,000, or approximately one-tenth of the domes-

tic figure. In 1923, the sales to the domestic trade were \$312,000,000; exports \$49,000,000. In 1924, domestic sales volume was \$283,414,000 while sales to foreign countries totaled \$59,974,000; more than one-fifth as much as the domestic business. The proportion for 1925 is still higher, approximating twenty-five per cent, foreign sales last year amounting to \$77,900,000. What 1926 will develop is conjectural, but exports during the first quarter of this year showed a gain of fifty-four per cent over the same period in 1925—\$25,123,000 against \$16,231,000.

While Europe is still the best customer of the farm equipment manufactures, the country which has been taking Yankee machinery in the largest quantities is Argentina, tractors and "combines" being in unusual demand, although the regular implement lines have been selling freely. In fact, purchases by that country, Canada, and Russia in Europe accounted for more than fifty per cent of the entire foreign business of the industry.

The rapid advance of the overseas trade in the ten leading markets is indicated in the following comparative table prepared by the U. S. Department of Commerce:

Country	1925	1924
Argentina.....	\$17,945,904	\$16,728,078
Canada.....	13,743,984	7,409,875
Russia in Europe	7,249,839	1,320,750
France.....	5,645,049	7,222,522
Australia.....	4,600,744	4,699,473
Italy.....	4,070,871	1,376,085
British South Africa.....	2,787,831	2,315,153
United Kingdom..	2,428,264	1,891,285
Mexico.....	2,213,335	1,666,114
New Zealand.....	1,613,608	848,111

NO TARIFF HERE!

It is of interest to note that while our farm implement manufacturers are selling their equipment abroad, in spite of tariff barriers, all the world is free to compete for the trade of the farmers of the United States, since there is no tariff here on farm machinery, except upon cream separators valued at more than \$50.00. And so long as the domestic manufacturer keeps far ahead of his foreign competitor in meeting the American farmer's demand for improved machinery to enable him to reduce production costs, there is little danger that the supremacy of American equipment in the home market will be seriously threatened.

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The Export Market for United States Canned Foods

By J. E. FITZGERALD

Assistant Secretary, National Cannery Association

THE stomach has its limits. Every one knows it, even the small boy who insists on being convinced by experience. The food needs of the world's population have their limits, too, but the fact is often forgotten in discussions of food consumption and trade. One difficulty in thinking straight is that many different foods are available under conditions that make for different food requirements, and a change from one food to another creates what appears to be a new trade but which is in reality only a substitution. Of course, some foods are better, more nutritious, more healthful than others, and in the long run such foods tend to replace inferior articles. But, given ability to buy the quantity of food necessary to maintenance of health and well-being, most people let their tastes decide. Habit and custom are strong factors in taste.

Americans eat more canned foods than any other people, more both in quantity and variety. In the United States canned foods, far from being a luxury, are an everyday food of all classes of people, used because they are at once convenient and economical and because they add variety and needed food values to the diet. This condition results from the fact that the American people as a whole are not only able to buy all they want and need, but also to choose the variety that their taste or their knowledge of food values suggests.

Choice of foods—and the consequent change in the consumption of any one of them—depends in large measure on the two factors of buying power and

knowledge. There are other factors—climate, occupation, the influence of habit, etc.,—but without means to exercise choice, knowledge of food values may have, and usually does have, little influence on choice.

Foreign countries with lower standards of living than those in the United States cannot be expected to consume as many canned food products as Americans. They will consume certain articles of American production which they themselves do not produce, and certain other articles which appeal especially to their taste. But the outlet for American goods in foreign countries will not equal the proportions it has gained in the United States until economic conditions in other countries more nearly approach those of our own country.

It seems, therefore, that the future of our export trade in canned foods will be determined largely by (1) the relation of the output and productive capacity of the canning industry to domestic food requirements; and (2) by the food requirements of foreign countries as determined by their own production and by their living standards and ability to buy.

This statement may seem to ignore considerations that loom large in present-day export problems, such as the tariff levied by foreign countries and the matter of food tastes and food habits. The latter are real problems and have a very real effect on present-day trade, but in the long run tariffs will be adjusted in connection with and in relation to the domestic production of

these foreign countries, while the matter of taste is one of education.

The development of industry and the increase of urban population in the United States have raised the question of the adequacy of our domestic food supply in coming years. Has the time come, or is it soon to come, when the United States must look to other countries for much of her food supply now furnished by domestic production? The best answer to this, so far as the immediate future is concerned, is the present plight of agriculturists who find a surplus on their hands that has depressed domestic prices and that can be marketed abroad only in competition with other countries having lower costs of production and therefore able to quote prices that mean no profit to the American farmer.

Another example is found in the canning industry itself, where record-breaking packs of corn, peas and tomatoes have resulted in prices which are unprofitable to the canners, but which caused a greater consumption of these products than in earlier years. With the canners, as with the farmer, the question is not one of producing enough to meet market demands, but of adjusting production so as to prevent a surplus, or of finding additional outlets for the surplus.

GROWTH OF CANNING INDUSTRY

Precise figures are lacking to show just where the canning industry stands

with respect to the food requirements of the country and in relation to other industries. Quantitative statistics for the canning industry and for many others are unavailable, especially for earlier years. The best that can be done is to use values and eliminate, so far as practicable, the influence of price changes. Besides, there is the possibility that any one census year reflects unusual production and business activity, or the reverse. A comparison covering practically the last twenty-four years, however, serves to throw some light on the situation.

In the following table are brought into comparison the population of the United States in 1899 and 1923 and the output of (1) all manufactures, (2) manufactured foods and kindred products, and (3) canned foods, including fruits, vegetables, soups, fish, milk and meat. The values are in dollars and these are given, first, as reported by the Census Bureau and, second, as corrected for price changes by use of the Labor Department's index numbers of wholesale prices.

While these figures give only an approximation of what has happened in the relation of canned food production to other factors, they do reveal that the output of the industry has increased much more rapidly than manufactures in general and very much more rapidly than the country's population.

The change in output of canned food staples such as corn, peas and tomatoes

	Value Reported by Census		Value Corrected for Price Changes		Increase as Indicated by Corrected Values
	1899	1923	1899	1923	
	1,000 Dols.	1,000 Dols.	1,000 Dols.	1,000 Dols.	Per Cent
All manufactures	11,406,927	60,555,908	15,209,200	39,322,100	158.5
Manufactured food and kindred products	2,199,204	9,524,051	2,971,900	6,613,900	122.6
Canned foods	73,970	620,518	99,959	430,915	331.3
Population	74,798,612	110,663,502	.....	.....	48

during this period was not nearly so great as the percentage of increase indicates. The growth of the industry has been due to diversification of production rather than to an increase in the output of the staples. This is indicated by the wonderful increase in the output of such articles as canned beans, pineapple and soups. In 1899, the three staples—canned corn, peas and tomatoes—constituted a little over thirty-five per cent of the total value of the canned foods production of the country. In 1923, those three articles formed less than eighteen per cent of the total value.

PRESENT STATUS

Statistics on canned food consumption are lacking and the trend of consumption can only be approximated by the use of available information on production and foreign trade. This method disregards, of course, the factor of stocks, on which no reports have been or are now collected. In 1904 the available supply of canned foods as represented by the combined production and imports amounted to about \$111,000,000, while the exports were roundly \$16,000,000, indicating that the value of the goods consumed was approximately \$95,000,000 or \$1.15 per capita. By the same method the value of the per capita consumption in 1923 works out at \$5.20. Between these two dates there was a considerable change in price levels, and when these per capita consumption figures are corrected for this change the consumption in 1904 works out at about \$1.37 and in 1923 at \$3.62. This is an increase of about 164 per cent.

In the same period exports of canned foods increased about 120 per cent and imports about 107 per cent. These increases are computed on values corrected for price changes.

That the canning industry is in po-

sition to meet the growing domestic consumption and likewise to increase its exports is also indicated by figures on plant output and capacity compiled by the Census Bureau for 1921 and 1923. These figures compare the actual output of factories with their maximum possible output. The Bureau does not give figures for canning alone, but it does furnish an estimate for 2438 firms engaged in canning and preserving fruits and vegetables and in the manufacture of pickles, jellies, preserves and sauces. In 1921 these firms actually produced fifty per cent of what they had capacity to produce. In 1923 their output was a little over sixty five per cent of their maximum possible output.

The present export trade in canned foods takes a proportion of the canning industry's production that varies widely with the respective products. The Foodstuffs Division of the U. S. Department of Commerce, which has worked out what it terms a rough ratio by comparing the production figures of 1923 with the exports for the fiscal year beginning July 1 of that year, states:

This comparison shows that our fruit exports vary from 3.4 to 46.5 per cent of the domestic production. These figures apply to cherries and pears, respectively. Approximately one-fifth of the canned salmon produced and over a quarter of the sardines were exported. About one-eighth of the evaporated milk and over a quarter of the condensed milk were consumed in foreign countries. Conditions are reversed in the case of canned vegetables, with the exception of asparagus. About one-seventh of the asparagus canned is exported, while for the other vegetables less than 1½ per cent of each is exported.

Our exports of canned foods are widely distributed, but the bulk of trade is with five countries—the United Kingdom, Canada, Cuba, the Philip-

pinos and Mexico. However, these five countries are not always the leading consumers of the individual items in the trade. Three of the five, it will be noted, are what might be termed nearby markets.

The importance of the British market is indicated by the fact that in 1925 it purchased of our canned beef exports 43.8 per cent, pork 89.4 per cent, evaporated milk 28 per cent, peaches 82 per cent, pears 90 per cent, pineapple 43.3 per cent, apricots 86.6 per cent, plums 73 per cent, other fruits 71.7 per cent, salmon 46.7 per cent, asparagus 12.4 per cent, beans 50.5 per cent, and soup 17.5 per cent. The United Kingdom is the one great foreign market for our canned fruits.

Canada, on the other hand, figured more largely in the vegetable trade, taking of the canned corn exports 52.7 per cent, beans 13.5 per cent, peas 26.2 per cent, soups 65.6 per cent, asparagus 6.2 per cent, other vegetables 38.8 per cent. Canada also purchased canned fruits in amounts varying from 13.6 per cent of the cherries down to 1.1 per cent of the pears.

Cuba occupied an important place in the trade in sausage (69.5 per cent), condensed milk (39 per cent), tomatoes (43.3 per cent), and also figured in practically all other lines.

The Philippines stood first in only one item, taking 20.1 per cent of the sardines exported, but it was second in condensed milk (24.8 per cent), salmon (13.9 per cent), and sausage (6.8 per cent), and it was third in beef, pork, evaporated milk, cherries, corn, tomatoes, beans, peas and miscellaneous vegetables. Mexico likewise figured in many items, though leading in none.

The relative importance in our export trade of the various classes of canned foods is shown by the fol-

lowing statistics of the amounts exported in 1924 and 1925:

Classes	1924 (Pounds)	1925 (Pounds)
Meat.....	15,896,037	16,889,536
Milk.....	206,224,758	157,762,615
Fish.....	125,828,879	122,334,625
Vegetables.....	59,984,841	55,360,564
Fruits.....	224,312,848	263,360,075
Total.....	622,247,363	605,707,435

FACTORS IN FUTURE DEVELOPMENT

For the trade in each of these lines with each of the important customers there is, of course, an explanation, and that explanation also furnishes the reason why other customers take less or none of the same item. Each country is an individual problem, and working out that problem involves consideration of (1) living standards and the proportion of potential buyers and users of canned foods in the country's population; (2) character and extent of domestic food supply with particular reference to items competing directly with canned foods or serving as substitutes for them; (3) food habits and tastes; (4) hindrances to exports in the form of customs duties; (5) food laws affecting the importation and use of foreign foods.

As already pointed out, the development of a market for canned foods in foreign countries comparable to that in the United States depends to a large degree on living standards. If the people of a foreign country enjoy the same standards as our people at home, they may be expected eventually to buy and use canned foods as we do, subject of course to such modifications as climate, taste, and available domestic foods of the different countries may dictate. So long as canned foods are a luxury because of their comparative cost, however, sales will be on a luxury

basis. Moreover, they are likely to be treated as luxuries in the framing of tariffs and in other legislation. The expansion of our foreign canned foods trade is therefore in great measure dependent on the world's advancement in material well-being.

While the United States leads the world in canning technique and in the uniformly good quality of its products, it is bound to come into increasingly sharper competition with foreign countries. In neutral markets, price and quality will be the deciding factors, and foreign countries usually have the advantage of lower production costs. In quality the American canning industry has nothing to fear. One factor often overlooked is that the development of the canning industry in foreign countries means greater consumption of canned foods everywhere, and the United States, with its wide range of products, is bound to profit from this increased world use.

Food habits and tastes are not changed over night. Introducing a product new to the great mass of food buyers is a process of education—and usually a slow one. But every convert to the new product is both a buyer and a missionary in the educational work. In this connection the statistics of our exports of canned corn—a typically American food—are interesting. Canned corn goes to practically every country in the world, but to most of them in comparatively small quantities. Possibly Americans resident in these countries account for most of the demand, but it is not unreasonable to expect a steady—if slow—growth in the trade in this product, whose merits are now fully appreciated by only the American people.

Foreign tariffs on canned foods are a real and effectual barrier to American trade in some countries. In some cases these tariffs are protective in purpose; in others, they are placed at a high rate because canned foods are considered luxuries and their buyers able to "carry the load." With its policy of a protective tariff, the United States is not in position to argue for a reduction in the protective duties levied by foreign countries on foods that they also produce, but were there a bargaining provision in our tariff, it would doubtless be possible to negotiate reciprocal agreements that would mean larger markets for various American products.

Canned foods complying with the United States Food and Drug Act meet any reasonable foreign requirement. Where foreign countries have unreasonable restrictions or requirements it is usually possible to obtain the desired changes. At times labeling regulations and customs regulations may cause difficulties, but these are minor hindrances rather than real obstructions to trade.

Consideration of all these factors leads to the conclusion that our export trade in canned foods will continue to expand steadily but not rapidly. Emergency conditions may develop to cause a sudden increase some one year or two, but the permanent and steady growth of our export trade will be founded on improved economic conditions abroad that make for a higher and better standard of living. Such conditions, combined with a better knowledge of canned foods, will bring to the American canning industry an outlet for an increasing proportion of its products.

Foreign Trade in Petroleum

By L. M. FANNING

Special Staff Representative, *Oil & Gas Journal*

A CONSIDERATION of American foreign trade in petroleum and its products and the factors that have made it what it is to-day, that are changing it to-day and that are working to change it to-morrow, invites study not only to that section of activity devoted to shipping oil abroad, but to the whole oil situation, domestic and world.

Merely to state that petroleum and petroleum products exported from the United States represent in value the sizable proportion of over nine per cent of this country's total exports and that, recognizing the desirability of developing foreign trade, the American oil industry is entitled to due credit in making this contribution toward a favorable trade balance, is to disregard an issue that has frequently been raised as regards the exports of petroleum, and particularly as regards gasoline.

The question of the exportation of gasoline has been raised principally in political circles in connection with prices paid for gasoline by American motorists, and not infrequently a bill is introduced in Congress advocating an export embargo.

In contrast, advocacy of the extension of American trade in foreign markets is general, insistent, recognized as fundamentally sound, and has been over a period of the last few years productive of significant results in connection with such merchandise as iron and steel products, machinery and vehicles.

Recently, American manufacturers of automobiles have concentrated on foreign markets and exports in 1925 increased thirty-nine per cent over the previous year.

But the most striking contrast is furnished by the paternalistic efforts on behalf of agricultural products.

The recent Congress seriously considered a bill which would have the government finance co-operative associations and other dealers who would purchase, store or export the surplus stocks of wheat, corn, cotton and live stock beyond the demand for home consumption. This exported surplus was to be sold abroad at world prices in contrast to the higher prices at home and this loss was to be reimbursed first by the Federal treasury and repaid from an equalization fee to be collected on these commodities sold by farmers.

The economic factors involved in the relation of exports to domestic prices are the same in the case of all commodities, whether mineral, manufactured or agricultural, and an opposite treatment for petroleum as against all other industry is obviously not justified on purely economic grounds.

Petroleum is probably subject to wider fluctuations as regards production than any other industry. It has its periods of overproduction with resultant depressed prices in as serious measure as occurs from time to time in cotton and wheat. The export oil outlet has its important bearing in such situations, although the development of the export trade in petroleum was not based on marketing a surplusage, nor is this its present most outstanding characteristic.

The proportion of gasoline exports to total domestic production and imports will be treated later. Exports amount to only 12.4 per cent of the total supply.

But while reference is made to the export gasoline issue, it is interesting to note that the price of the product at home has been relatively low.

According to index numbers of wholesale prices compiled by the U. S. Department of Labor, gasoline has in all except three years since 1913 been consistently under the average for "all commodities." In 1925 gasoline sold only fourteen per cent higher than in the prewar year of 1913, while the average for "all commodities" was fifty-nine per cent higher. In 1924 gasoline was seven per cent higher, against fifty per cent; in 1923, twenty-three per cent against fifty-four per cent; while in 1922 both gasoline and "all commodities" showed a rise of forty-nine per cent.

The main difference between oil and some of the other important commodities in export trade, regarded from the angles of national prosperity and security, would seem to be that petroleum is a mineral and an exhaustible resource. Should not oil produced in this country be used to meet only domestic requirements, and would not a stoppage of exports result in conserving that much more oil in the ground? The imminent exhaustion of American oil resources has frequently been predicted. And there is every reason to believe that the itinerant advocates of gasoline export embargoes have been motivated consciously or subconsciously by a fear complex respecting a gasoline shortage and America's increasing dependence on foreign oil sources.

But estimates of petroleum reserves in this country are revised upwards successively as the drill penetrates to deeper sands and into new areas. Thus far the gasoline shortage has failed to materialize, as the gasoline price levels cited eloquently show. The first exhaustive study of American

oil resources¹ made by the petroleum industry is optimistic as to future supplies.

Meantime the export figures for petroleum products over a long series of years show the law of supply and demand to be operating to effect adjustments that artificial measures could not hope to accomplish.

WORLD PRODUCTION AND CONSUMPTION

It is necessary to look on petroleum like wheat, as a world commodity with a world market, the American industry affected by sources of supply scattered all over the globe. The development of large-scale oil production in Persia, for instance, has had a noteworthy effect on the exports of gasoline from the United States.

Also, petroleum, like wheat, is an essential product. Petroleum as a world essential is the answer for America's exportation of the various oil products. It is not that the American industry looked about for a market for its surplusage, but that the world demanded vital products which nature and initiative in enterprise gave in abundance to this country.

Production of petroleum in America dates back to 1859, and the United States has virtually from the earliest days supplied the bulk of the world's oil. An unknown product, the first important use to be discovered for it was as a burning oil in lamps. Kerosene gave the world light, and the world had to come to the United States for most of its supply.

For lubrication, the same is true. Lubricating oil derived from petroleum made possible the age of machinery and the world progressed in this direction largely through American supplies.

In the early days of the 20th century

¹ *American Petroleum Supply and Demand, 1925. Report of Committee of Eleven of American Petroleum Industry.*

the automotive development in the United States began to make definite forward strides and by 1910 the automobile was creating a new large demand for a petroleum product. To supply gasoline to meet the phenomenal growth of the automobile has been the predominant influence in the world's petroleum development and has revolutionized the American industry.

The world was brought to a full realization of the essential importance of petroleum in everyday life in industry, and in connection with national security, during the World War. The great development in the use of fuel oil in factories and in ships had its inception during the war. Many of the military campaigns were directed with oil sources as the objective and the post-war days have seen a long diplomatic struggle for petroleum.

The United States is now supplying over seventy per cent of the world's crude oil production. The unequal drain on American oil resources is shown by the fact that since recorded production in 1857 and through 1925, this country has supplied sixty-four per cent of the world's total output. The figures are as follows:

TOTAL PETROLEUM PRODUCTION, 1857-1925	
	Barrels
World.....	13,467,493,000
United States.....	8,669,929,000

The oil producing countries of the world, with their production in 1925, are shown in the table on this page.

But in connection with the above figures and with the apparent fact that the United States has supplied the bulk of the world's oil requirements, it is important to bear in mind that this country itself accounts for the bulk of the consumption. The rapid development of American oil resources is due to the accessibility of the oil fields to

ESTIMATED WORLD PETROLEUM
PRODUCTION, 1925

Countries	Barrels	Per Cent of Total
United States.....	764,000,000	71.6
Mexico.....	115,000,000	10.8
Russia.....	52,000,000	4.9
Persia.....	34,665,000	3.3
Dutch East Indies.....	21,500,000	2.0
Venezuela.....	20,200,000	1.9
Roumania.....	16,625,000	1.6
Peru.....	9,164,000	.9
India.....	7,500,000	.7
Poland (Galicia).....	5,770,000	.5
Argentina.....	5,422,000	.5
Sarawak (British Borneo).....	4,500,000	.4
Trinidad.....	4,417,000	.4
Japan.....	2,000,000	.2
Egypt.....	1,220,000	
Colombia.....	1,000,000	
France.....	445,000	
Germany.....	410,000	
Canada.....	160,000	
Czechoslovakia.....	50,000	
Italy.....	45,000	.3
Algeria.....	12,000	
Barbadoes.....	9,000	
Cuba.....	4,000	
England.....	2,000	
Others.....	100,000	
Total.....	1,066,220,000	100.0*

*Authority: American Petroleum Institute.

large consuming markets. This has meant cheaper production costs as compared to the expense of developing fields in more remote countries and has tended to retard development in other parts of the world.

With an oil-fueled navy, a sixty-four per cent oil-burning merchant marine and twenty million motor cars, the United States consumes more oil and is more dependent upon oil than any other country. On a barrel for barrel basis it probably consumes an equivalent to its total production.

The importance of American participation in the development of foreign oil fields is apparent not only from this

fact but from the fact that in the building up of an export trade in kerosene and lubricating oil, followed by gasoline as demand abroad developed for that product, the American industry has a large fixed investment in tankers, and in terminals, tankage, refineries, distributing stations and transportation equipment in many foreign countries.

American companies are active in many foreign fields, but British and Dutch interests have been no less energetic and in some cases more notably successful.

Development of production in foreign countries strategically located as to foreign markets obviously affects the drain on American oil. For instance, Russia has large reserves and under normal conditions would supply petroleum products in considerable quantity to European and Near Eastern markets, as well as possibly to Far Eastern countries, which are now being supplied from America and other countries less advantageously located. In the last year or so Russian oil has been entering European markets on a large scale.

The same is true of Persian oil, and the effect on American export trade is being felt.

As demand has developed, the world's petroleum requirements in near and remote countries have been supplied from sources that could deliver the oil under conditions of competition, and with the continued increase in demand for petroleum products in all countries further stimulus to foreign oil development is expected.

Furthermore, the tendency in all countries having any petroleum resources to have these developed for home use and for revenue is bringing about by degrees a new alignment of oil-producing countries with corresponding influence on the American home and export oil situation.

U. S. PRODUCTION AND IMPORTS

The production of petroleum in the United States has doubled since the close of the World War. Imports, largely from Mexico but in increasing quantity in 1925 from Venezuela, reached their peak in 1922 and have since declined, although Venezuela and Colombia are expected to make up for the diminishing available supply in Mexico in the next few years. The figures follow:

U. S. PETROLEUM PRODUCTION AND IMPORTS

Year	U. S. Production (Barrels)	Imports *
1918.....	355,928,000	38,943,000
1919.....	378,367,000	54,161,000
1920.....	442,929,000	108,794,000
1921.....	472,183,000	128,776,000
1922.....	557,531,000	135,947,000
1923.....	732,407,000	99,608,000
1924.....	713,940,000	94,534,000
1925.....	755,852,000	78,200,000

* All oil. Authorities: U. S. Bureau of Mines and U. S. Bureau of Foreign and Domestic Commerce.

Imports of oil into the United States do not indicate with any exactitude the barrelage extent of America's dependency upon foreign oil. Most of the oil imported is a heavy oil mainly suitable for fuel oil and much of it goes into marine use. It has to be topped or refined, however.

The United States in the development of its petroleum resources has built up a great refining industry. Thus crude oil supplies, developed in remote countries, must find their way to refineries before the products in demand are available.

The fact that this country has the facilities for manufacturing the products in demand means that it will continue to attract the raw material and that its position for supplying the

world with the bulk of petroleum products will remain important until foreign refining facilities are more extensively developed.

To revert to the question of the stoppage of American petroleum exports as a measure to conserve domestic oil resources, it appears obvious from a consideration of events and conditions as outlined above that this policy would not accomplish the desired purpose. Such a stoppage would have resulted in the outside world drawing on other sources for its supplies, principally on Mexico and the South American countries, and building up the necessary refining facilities. This oil would have been diverted away from the United States and the cutting off or reduction of imported oil into this country would have created a deficiency in supply that could only have been offset by increased domestic production.

U. S. LEADERSHIP IN MANUFACTURED PRODUCTS

Total exports of domestic merchandise from the United States in 1925, according to the U. S. Bureau of Foreign and Domestic Commerce, were \$4,818,271,000, of which petroleum and petroleum products contributed \$445,502,000, ranking among the leading exported merchandise.

Exports of unmanufactured cotton totaled \$1,059,751,000; other leading exports were animals and animal products, \$451,652,000; machinery, \$385,377,000; grains and preparations of grains, \$351,789,000; vehicles, \$334,462,000; iron and steel, \$223,618,000; wood and paper, \$197,584,000; and chemicals and allied products, \$124,455,000.

Of the total mineral oil exports, crude oil in 1925 amounted to \$24,275,000 and refined products aggregated in value \$421,227,000, as follows:

VALUE OF EXPORTS OF REFINED PETROLEUM 1925

Gasoline.....	\$197,797,000
Kerosene.....	83,525,000
Gas and fuel oil.....	49,045,000
Lubricating oils.....	91,060,000

The value of exports of refined petroleum exceeds that of any other manufactured product exported from the United States.

CRUDE OIL EXPORTS NEGLIGIBLE

Crude oil and each of the refined products are subject to distinct factors in export, as well as in domestic trade. While the various products come from a common source, they are in reality almost totally different as regards factors of supply and demand, and for this reason they will be treated separately.

Exports of crude oil in 1925 totaled 13,000,000 barrels, a negligible quantity as compared to this country's total production of 755,852,000 barrels. The bulk of the outgoing crude oil went across the border by pipe line to supply Canadian refineries, these shipments totaling 8,915,000 barrels.

GASOLINE IN FOREIGN TRADE

Gasoline exports in 1925 totaled 31,665,000 barrels, amounting to only 12 per cent of the total domestic production and imported gasoline. While gasoline exports have increased 135 per cent since 1918, the proportion of exports to the total supply has shown no marked increase. The figures follow on next page.

During the World War refining facilities in the United States were concentrated on turning out gasoline and fuel oil to supply the demands of the Allied armies, navies and essential industries. It is noted that in 1918 gasoline exports amounted to 15.9 per cent of the total American supply, the highest rate on record.

GASOLINE PRODUCTION, IMPORTS AND EXPORTS, 1918-25 *

Year	Production	Imports	Total Prod. and Imports	Exports	Per Cent Exports to Total Supply
	(Barrels)	(Barrels)	(Barrels)	(Barrels)	
1918.....	85,007,000	907,000	85,914,000	13,545,000	15.9
1919.....	94,235,000	203,000	94,438,000	9,098,000	9.6
1920.....	116,251,000	964,000	117,215,000	15,637,000	13.3
1921.....	122,704,000	900,000	123,604,000	13,171,000	10.7
1922.....	147,672,000	1,479,000	149,151,000	14,157,000	9.5
1923.....	179,903,000	4,555,000	184,458,000	20,736,000	11.2
1924.....	213,325,000	3,454,000	216,779,000	28,967,000	13.4
1925.....	259,193,000	3,812,000	263,005,000	31,665,000	12.0

* Authority: U. S. Bureau of Foreign and Domestic Commerce.

At the close of the war, export trade in petroleum products was badly demoralized and a severe readjustment to a peace basis was necessary. The drop in shipments in 1919 resulted. In 1920 the possibility of an oil shortage carried prices for crude oil to the highest level in recent history, and foreign purchasing was resumed on a large scale, while impetus was furnished for widespread activity in drilling work in America and in many foreign countries.

The jump in the rate of exports in 1923 and 1924 reflects a condition of overproduction in the United States, caused by the bringing in of several great oil pools in the Mid-Continent and in California in those years.

Europe is the largest consumer of American gasoline. Of the total exports in 1925, 20,570,000 barrels, or sixty-five per cent went to European countries.

The United Kingdom and France are the largest individual consumers, exports to the principal countries in 1925 being as follows: United Kingdom, 8,237,000 barrels; France, 6,143,000 barrels; Belgium, 1,160,000 barrels; Germany, 1,052,000 barrels; Italy, 902,000 barrels, and Spain, 674,000

barrels. Canada accounted for 2,282,000 barrels of the total gasoline exports in 1925 and South America for 2,040,000 barrels, 1,012,000 barrels of the latter going to Brazil and 720,000 to Argentina. Exports to Australia totaled 1,541,000 barrels and to New Zealand 800,000.

The latest published estimates of the total gasoline consumption of European countries are as of 1924, showing a total of 31,000,000 barrels, and in that year American gasoline apparently supplied about sixty-six per cent of the total.

While there is no commercial petroleum production in England, an important refining industry has been established, and increasing supplies of gasoline are being refined locally, chiefly from Persian crude oil. However, in spite of the growing tendency to import as much crude oil as possible for refining in the country, the demand for gasoline has thus far exceeded the local output, so that imports continue to increase.

Nevertheless, the effect of the influx of Persian crude oil and products on the American export trade to the United Kingdom and of the same cause coupled with Russian gasoline into

France, is being felt and is reflected in the export figures.

In 1924 the United States exported 8,800,000 barrels of gasoline to the United Kingdom and in 1925, despite the large increase in British consumption, the total dropped to 8,237,000 barrels. In France, where consumption is also increasing, there was no gain recorded for exports from the United States in 1925 over 1924.

INFLUENCE OF THE AUTOMOBILE

The most important factor affecting consumption of gasoline in European countries is the growth of automobile use, in part stimulated by the export drive being made by American car manufacturers. Total European consumption of gasoline amounts to a little less than seventeen per cent of the consumption in the United States, this being eloquent of the predominance of motor car use in this country, and of the potentialities of foreign automobile markets.

At the end of 1925 there were 19,954,000 motor vehicles registered in the United States. Total world registration, according to the U. S. Bureau of Foreign and Domestic Commerce, was 24,565,000 cars, indicating only nineteen per cent owned in foreign countries.

The United States has one motor vehicle to every 5.7 persons. In contrast the United Kingdom, with 903,000 cars, has one for every forty-nine persons. France has one for every fifty-four persons.

The enormous possibilities respecting increased gasoline demand not only in European countries but in Latin-American countries, as financial conditions improve and as projected road improvements are made, as a result of the expected increase in the use of motor cars, are recognized. While the growth in demand will probably be

gradual, it will cause further impetus in the development of foreign oil sources, accessible to the growing markets, and the building up of local refining industries to some extent.

In other words, American gasoline will probably supply a diminishing proportion of the world's demand, while its actual exports will probably continue to increase for some time to come, pending the developments predicted, probably the most important trend in the export trade to-day.

IMPORTANCE OF KEROSENE EXPORTS

Exportation of kerosene has been an important part of the activity of the American petroleum industry since the early days. Kerosene exports amount to thirty-five per cent of the total production. Imports are negligible. The figures over a period of years follow on next page.

Until the advent of the automobile, kerosene was the most important product of petroleum. The early growth of the industry owed itself to the use of kerosene for light and heat, and the prolific American supply furnished these essentials in communities and countries hitherto in relative darkness. Artificial gas and later electricity largely supplanted kerosene, but it is still an essential in many parts of the world.

The story of the kerosene lamp and China is familiar. China is still the largest purchaser of American kerosene.

Exports of kerosene to China in 1925 totaled 3,050,000 barrels. Japan purchased 1,301,000 barrels. Exports to the United Kingdom totaled 2,546,000 barrels. Italy is a large purchaser with exports to that country totaling 1,848,000 barrels.

During the war, production and exportation of kerosene were sacrificed in favor of gasoline and fuel oil, as indicated by the figures for 1918, but

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KEROSENE PRODUCTION AND EXPORTS, 1918-25 *

Year	Production	Exports	Per Cent Exports to Prod.
	(Barrels)	(Barrels)	
1918.....	43,461,000	11,820,000	27.2
1919.....	55,753,000	23,537,000	42.2
1920.....	55,240,000	20,881,000	37.8
1921.....	46,313,000	17,997,000	38.9
1922.....	54,913,000	21,489,000	39.1
1923.....	55,927,000	20,349,000	36.4
1924.....	60,026,000	21,961,000	36.6
1925.....	59,770,000	20,959,000	35.1

* Authority: U. S. Bureau of Foreign and Domestic Commerce.

since the war the export movement has been steady and with little important change.

FUEL OIL vs. COAL

Exports of gas and fuel oil from the United States in 1925 totaled 36,121,000 barrels, amounting to 9.6 per cent of the total American production and imported supply. The figures for a number of years follow:

with petroleum. The tendency toward conversion of battleships into oil burners noted on the part of the Great Powers just preceding the World War was done practically overnight, as soon as the war got well under way. New vessels off the ways became oil burners and when the war ended the conversion was virtually complete and all the navies of the Great Powers are now on an oil-burning basis.

GAS AND FUEL OIL PRODUCTION, IMPORTS AND EXPORTS, 1918-25 *

Year	Production	Imports	Total Prod. and Imports	Exports	Per Cent Exports to Prod. and Imports
	(Barrels)	(Barrels)	(Barrels)	(Barrels)	
1918.....	174,319,000	x	x	20,642,000	
1919.....	181,602,000	x	x	17,273,000	
1920.....	210,987,000	x	x	22,598,000	
1921.....	230,091,000	x	x	22,955,000	
1922.....	254,910,000	x	x	18,479,000	
1923.....	287,480,000	12,237,000	299,767,000	33,372,000	11.1
1924.....	320,476,000	12,927,000	333,403,000	37,248,000	11.2
1925.....	363,787,000	12,117,000	375,904,000	36,121,000	9.6

* Authority: U. S. Bureau of Foreign and Domestic Commerce.

x Figures not available.

The growth of the use of fuel oil for industrial and marine purposes is one of the most romantic stories connected

But of even more significance as affecting the petroleum and coal industries, the one favorably and the other

unfavorably, was a similar movement as regards the merchant shipping of the world. Thus, before the war—that is, in 1914—of the total world gross tonnage amounting to 45,404,000 tons, probably less than four per cent represented oil burners. By 1920 world tonnage had increased to 53,905,000 tons with oil burners representing about seventeen per cent. In 1925 world tonnage totaled 62,380,000 tons, according to Lloyd's Register, of which 41,862,000 tons represented coal burners and 20,518,000 tons represented oil burners. That is, oil-burning tonnage is now thirty-three per cent of the total. The American merchant marine is sixty-four per cent oil burning, the British, twenty-six per cent, the Dutch, thirty-one per cent, the Norwegian, thirty per cent, and the Swedish, twenty-five per cent. The world's merchant shipping is, moreover, becoming more definitely committed to oil than would appear from simply a conversion permitting the burning of fuel oil for steam raising purposes as against coal, through the increase in the use of Diesel engine power.

World oil-engined ships of 500 gross tons and over numbered only sixty, with a gross tonnage of 194,000 tons, in 1914, according to the U. S. Bureau of Navigation. By 1925 there were

608 Dieselize ships, with an aggregate tonnage of 2,157,000 tons. The demand created for fuel oil has been largely supplied by the Mexican and California oil fields. To these prolific sources of supply the British coal industry, supplying bunker coal requirements in all parts of the world, probably owes its chief sorrow. Oil bunkering stations have been established wherever a vessel puts in.

In the American bunkering trade, the value of fuel oil has mounted from \$11,676,000 in 1918 to \$68,173,000 in 1925, while coal reaching its peak of \$82,462,000 in 1920 declined in 1925 to \$23,398,000. The changed situation is shown by the figures below.

In the direct export trade, as distinguished from the bunkering trade, the chief demand for American fuel oil comes from the nitrate industry in Chile and the sugar centrals in Cuba. In 1925 5,084,000 barrels were shipped to Chile and 3,800,000 to Cuba. Some of this was probably bunker oil, but the bulk was for the industries mentioned. Exports to Canada totaled 4,526,000 barrels and to the United Kingdom, 4,405,000 barrels.

EXPORTS OF LUBRICATING OILS

Exports of lubricating oils in 1925 totaled 9,698,000 barrels, representing

FUEL OIL AND COAL LADEN ON VESSELS ENGAGED IN FOREIGN TRADE *

Year	Fuel Oil		Coal	
	Barrels	Value	Tons	Value
1918.....	6,603,043	\$11,676,053	5,532,175	\$29,868,023
1919.....	14,031,356	29,383,438	7,342,734	48,205,675
1920.....	26,334,883	66,679,056	9,362,178	82,461,518
1921.....	27,076,138	57,183,282	7,547,518	52,277,668
1922.....	31,692,201	43,677,579	4,120,207	27,912,957
1923.....	37,581,845	52,204,720	4,547,343	31,469,788
1924.....	43,327,775	57,972,815	3,982,511	22,883,293
1925.....	42,826,726	68,173,416	4,344,215	23,397,831

* Authority: Bureau of Foreign and Domestic Commerce.

31.3 per cent of the total American production. The figures over a period of years appear below.

The most significant development affecting foreign lubricating oil trade is the expansion of the use of the automobile.

THE TANKER IN FOREIGN TRADE

In the export field the tank ship plays a major part. Tanker routes connect all markets with supplies, as well as all oil fields, no matter how remote, with refining facilities.

According to the U. S. Bureau of Navigation (reports covering vessels of 500 gross tons and over) there were 320 steam and gas tank vessels with an aggregate tonnage of 1,352,000 tons

in service in the world in 1914. In 1925 the number had increased to 961 with an aggregate tonnage of 5,157,000 tons.

An interesting phase in connection with the tanker is that oil has made the Panama Canal a paying investment and has contributed to the Suez Canal's prosperity in a striking way.

The development of large production in California in 1923 and 1924 resulted in a heavy movement of the California oil through the Panama Canal destined for Gulf and Atlantic American ports and for foreign points. The opening of the Persian oil fields and the increase in shipments from Persia in the last few years is the factor that has favored the Suez.

LUBRICATING OIL PRODUCTION AND EXPORTS, 1918-25 *

Year	Production	Exports	Per Cent Exports to Prod.
	(Barrels)	(Barrels)	
1918.....	20,035,000	6,165,000	30.8
1919.....	20,161,000	6,598,000	32.7
1920.....	24,922,000	9,643,000	38.7
1921.....	20,901,000	6,940,000	33.2
1922.....	23,304,000	7,940,000	34.1
1923.....	26,128,000	8,370,000	32.0
1924.....	27,499,000	9,104,000	33.1
1925.....	30,977,000	9,698,000	31.3

* Authority: U. S. Bureau of Foreign and Domestic Commerce.

The Motion Picture Industry

By WILLIAM A. JOHNSTON
Editor, *Motion Picture News*

THE show business—legitimate, vaudeville, carnival, etc.,—has always been looked upon by business men as a little world of its own, quite apart from the regular paths of trades. With the advent of the motion picture, however, a genuine industry has taken root and form, and it has become one of no mean dimensions.

In structure this industry is like any other. It has its manufacturers, jobbers and retailers, called, respectively, producers, distributors and exhibitors. Advertising and selling are important functions. Altogether it has all the economic law and order of the industries of staple products.

To-day, upwards of 7,000,000 persons attend daily the motion picture theatres of the United States. This would indicate an appeal to at least fifty per cent of the population. With many families the expenditure for motion pictures is a considerable, if unknown, part of the yearly budget. The fact is that the motion picture has become quite generally a necessity, though paid for somewhat loosely, like a luxury.

The average price of picture theatre admissions is around twenty-eight cents. We can figure, then, on a daily box-office intake in this country of \$2,000,000.

Taking into consideration those states and localities where theatres are closed on Sundays, we can figure a yearly total for the picture theatre box office of approximately \$650,000,000. This is for the United States and Canada only. The total daily receipts of motion picture theatres throughout the world exceed a billion dollars a

year. The American producer supplies upwards of eighty-five per cent of the pictures shown in the theatres of all foreign countries. This is the one American manufacturing industry which takes precedence to such an extent in foreign trade.

We will treat of the foreign field a little later. In the meantime, we can but visualize the structure of the industry by considering separately its three branches—production, distribution and exhibition—or manufacturing, jobbing and retailing.

THE PRODUCER

The product of the industry may be divided into two kinds: long and short subjects.

Long subjects comprise the so-called feature photoplays of five reels or more in length. Short subjects, limited to two reels, consist of comedies, news reels, cartoons, travelogues, and novelties of various kinds. Producers, for the most part, specialize in either of these two fields of work.

Each year over 700 feature photoplays are produced, which is close to one-third in excess of the market demand here and abroad. The production cost varies all the way from five thousand to over a million dollars per picture. These are the extremes. So-called "western" dramas, consisting largely of out-door settings, cost generally from \$10,000 to \$60,000. Program features in general cost from \$60,000 to over \$200,000. By "program" I mean the regular, week in and out, feature pictures of the theatre program as distinguished from "special" pictures.

The term "special" is a relative one.

A producer whose regular output is done at an economical figure may classify "specials" as a small group of pictures costing considerably more and noticeable on account of star and story values. Another company whose average cost is as high as these aforesaid "specials" will put in this class—or try to—its pictures costing around or above a half million dollars. The cost, of course, does not determine the "special" value. Expensive hopes to this end sometimes fail, and the picture finally goes forth as a regular, or program release, along with its less pretentious brethren.

When "specials," however, prove exceptional, as well as exceptionally expensive, they are lifted out of the regular channels of distribution. They are given New York premières, consisting of long runs at legitimate playhouses at two dollar top prices. Then they go to the other large cities, and after this period, as much as a year, they are released to the picture theatres starting in with runs of two weeks at the large city houses and then throughout the lesser cities and towns, achieving, in the case of "The Covered Wagon," bookings of over 12,000 (about the saturation point, since there are less than 15,000 picture theatres in the country).

The "road show" idea originated with "Quo Vadis," which opened at the Astor Theatre in New York in 1914. The more perfect working of the scheme, however, came with "The Birth of a Nation," twelve road companies of which were netting at one time as much as \$90,000 a week. A road company of a picture at that time consisted of an advance agent, an orchestra, sets, and projection machine and operator (since the legitimate theatres then were not so equipped).

It is interesting to note that the production cost of "The Birth of a

Nation," although considered outrageous at the time, was less than that of an ordinary program picture to-day. Two photoplays of these earlier days, "Stop Thief" and "Officer 666," made from successful plays and with the best talent obtainable in the way of cast and direction, cost less than the cheapest feature made to-day.

Reverting, for a moment, to the "special" picture, it is necessary, where the production cost is high, to give it such special handling (as the road show scheme) in order to make it pay. A gross of \$350,000 for the producer and distributor is a high one, especially as an average for an output of forty to eighty pictures a year. Only the very good box-office pictures will go as high as \$500,000. It will therefore be seen that when a picture costs over \$500,000, and frequently they cost above \$1,000,000, said picture must be sold to the public in a way entirely different from the run of product; for out of the gross rentals must be paid cost of production and the very high cost of distribution, including advertising and selling.

High production cost to-day is a serious menace. It is, in fact, the bugbear of the business. Those large production and distributing companies which also own and operate theatres would be quite happy to have these theatres only and let someone else worry about pictures and production costs. But they have the job to do. In the early days of feature production there were plenty of free lance, or independent producers. Now they have all but disappeared. The big studios of Hollywood—where production is confined outside of three or four studios in New York—represent investments of millions of dollars. The plants are huge and comprehensive. The payrolls of the largest run around \$100,000 a week. Big organization

and capital are required to-day to give assured quantity and quality in picture production.

High production cost is due to these major factors:

- (1) Non-productive overhead.
- (2) Excessive salaries to featured players.
- (3) Expensive sets and locations, to achieve sensational effects, or realism.

To the outsider, the heavy costs seem not only scandalous, but correctible. To which the insider replies: "try and change them!"

There are some splendid jobs open in production circles for those who can effect sweeping economies. But the chances are that the captains of other industries would fail miserably if they tried to make mills and factories out of picture studios. Picture-making is wholly creative, the end, without which nothing, being the capture of the public fancy. To standardize pictures is to make them dull and so deplete the box-office. It is a well-known fact in the show world that nothing costs too much if it catches on with the public. It is the mediocre, though economical, creation that loses money. Some companies have been all but disrupted over the expense of pictures which proved to be great gold mines; other concerns, which turn out quantity films by approved factory methods, have had their very existence saved by an occasional picture that lifted its head away above the economical crowd.

So production is a side to this weird industry which is utterly apart from production in other industries. Production is the show business, just like making stage plays. But the moment the prints of the show are made and the films go into the cans, then the business enters a regular industrial phase. And

so we proceed to the consideration of distribution.

THE DISTRIBUTION

It is my own opinion that picture distribution is to-day sadly uneconomic and that the ills of production, such as high cost, for instance, are due and wholly due to this sore spot. I believe that distribution will have a basic change, that such a change is already, if slowly, under way. And I base this belief upon the simple premise that distribution to-day is not so geared that advertising—a great economic force in the industry—can work with it to anything like its full power.

However, that is controversial and a big subject in itself. Let us confine ourselves to a fact survey.

In the early days of production when theatres were springing up like mushrooms from coast to coast, it speedily became apparent that some agency must exist to handle, and book and route the films. So exchanges, or jobbers, established themselves in the principal cities and served the districts about them. At first they were independently owned and operated; later, many were purchased by aggregations of producers and banded together in national distributing systems. These were the days of the General, Universal and Mutual Film Companies, each of which made and distributed to the theatres a weekly service of so many reels of short subjects.

When Mr. Zukor and others came along, with the more pretentious subject of five reels or more—a new type of merchandise to be sold in a new way at a new price—inroads were again made among the independent or territorial rights exchanges to secure national distributing systems. At first these distributing systems were self-owned and directed corporations; to-day, for the most part, they are owned by and for

the producing interests. Unlike jobbers in other fields, they handle only their own manufactured product. Out of twelve national distributors only two are neutral as to product; they take pictures from independent producers. Then there still remain a considerable number of state rights exchanges, handling the product of the so-called independent producers (independent here meaning independent so far as distribution is concerned). The great bulk of pictures, however, are produced and distributed by the large producer-distributor concerns, who have now gone a step further and are also owners of theatres.

Distribution has two functions: (1) physical distribution, involving shipping, clerical work, collections, and the inspection and renovation of the film; and (2) selling and advertising, getting the contracts for groups of pictures and then play dates for the individual picture.

Distribution cost runs all the way from twenty-two per cent to over forty per cent of the gross rentals received. A distributor contract with an independent producer generally calls for thirty-five per cent of the gross.

In an effort to reduce distribution cost the scheme of joint physical distribution has often been considered. Two years ago *Motion Picture News* offered a prize of \$1,000 (increased to \$2,000 by the Universal Film Corporation) for the best new plan of distribution. Some seventy plans were submitted. A committee from the trade made the award to a physical distribution plan, laying out complete specifications and calling for the creation of a new concern to be organized, owned and operated by the American Railway Express Company. The plan was never, however, put into operation. Physical distribution is, of course, a matter of service and those companies

who believed themselves to excel in this respect naturally were opposed to standardization.

As for any scheme whatever of joint selling, that has never even been considered. Just recently, however, in Western Europe three large American companies have united their selling and distributing offices in an effort to meet an uneconomic situation. So far the scheme seems to be working satisfactorily; but it remains to be seen, at the end of the year when an accounting will be had, whether each of the three companies will be wholly satisfied with their share of the sales.

The price at which a picture is sold by the distributor to the exhibitor—the rental price—has no uniformity whatever. There are no fixed prices. Every picture is as good as a man thinks it is; it is worth whatever the distributor can get and the exhibitor is willing to pay. If two theatres are competing for it the distributor gets the best of the situation: if the zone is "closed," that is, if one exhibitor owns all the houses, the distributor must either take what the exhibitor is liberal enough to pay or else stay out. Naturally, there is considerable warfare, and a very wide range between prices asked and accepted. Overbooking by the exhibitor and other faults on each side lead to numerous troubles which would pack the local courts with litigation were it not for the fact that, through the Hays Association (Will H. Hays heads a group comprising practically all the producers and distributors) and the various exhibitor organizations, the principle of arbitration is applied everywhere through joint boards. Several thousand cases each year are thus disposed of. Very few cases fail of settlement. The basis is a uniform contract, which, while not admittedly perfect as yet, seems fairly satisfactory to each branch of the trade.

In speaking, just above, of rental prices, I have alluded to what the trade calls "flat rentals," as distinguished from "percentage playing," the other way of gauging what the exhibitor should pay and the distributor receive. "Flat rentals" are necessarily arrived at by barter. With "percentage playing," the value of the picture is fixed by its actual performance at the theatre box-office. It is a matter, then, of determining what share each party should have, after taking into consideration the important factor of adequate advertising, so that the picture may be said to have earned all it should.

As early as eight years ago in *Motion Picture News* the writer advocated "percentage playing" as the one fair and economic method. This met with a storm of protest from exhibitors; they were disinclined—this was the major objection—to show their books to the producer-distributor who was then buying up theatres. "Percentage playing," however, has steadily grown in favor. I was just recently informed by the general manager of one of the largest companies that out of his 1200 leading accounts, over sixty-five per cent were on a percentage basis. These 1200 accounts, embracing the larger theatres of the country, yield about seventy per cent of the gross intake on the average picture.

Since 1200 bookings, out of, say, a possible six thousand, yield seventy per cent of the producer-distributor's income from a picture, it is obvious enough that there is a wide variance in the rental prices paid by the different classes of theatres. In round figures we can say that the range is from five dollars to several thousands for a feature picture.

Here are some figures from a prominent producer-distributor: the life of a picture is reckoned at two years; after

that the value of the negative (the master picture from which the prints are made) is written off. During the first three and a half months after the picture's release (to the first run theatres) fifty per cent of its total earnings are received; in the next eight and a half months of the first year, thirty-five per cent; the balance of fifteen per cent comes in, in the second year, from the small and mostly rural theatres of the country.

Which brings us to a consideration of the theatres and the exhibitor.

First, however, a few more facts about distribution.

The national distributor has his home offices in New York, and branches or exchanges in from twenty-two to thirty-five of the largest cities. From fifty to 250 prints are made from the average feature negative (another negative is made for foreign distribution). The number of film salesmen employed varies from 100 to 200 per company. There are also district managers and exchange managers and a considerable aggregate force of bookers, clerks and employes devoting themselves to shipping, film inspection, etc.

EXHIBITION

In the beginning of the industry the producer dominated; then the distributor; to-day it would seem we are to have an era of theatre importance. And we may expect some large economic changes as a result.

The investment in picture theatres in this country is roughly reckoned as well over a billion dollars. And this large investment is being rapidly increased, more rapidly now than ever, by close to \$200,000,000 a year. The public demands new styles in theatres as well as novelty in pictures. The attraction, in fact, of the theatre itself, is a large part of the show appeal. Consequently, it will be seen that the

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life of a picture theatre in centers of population is not a long one. A liberal amortization should be made for this reason, which means that a picture theatre must pay liberal profits. It will also be seen that over-seating must, at times at least, exist, just as we have also over-production of pictures.

But while the number and quality of theatre seats is fast increasing, the total number of theatres is decreasing. The smaller house is steadily giving way to the larger and more attractive theatre wherever population—and in the country, good roads—justify the change.

The theatre branch of the industry is now in a third era of development.

In the beginning, when pictures were being made, and the public flocked to see the amazing sight of photography in motion, there was no time to build, scarcely time to equip, theatres. Vacant stores were utilized, and, provided a projection machine and screen could be had, chairs were moved in and a "grind" show began. This may be styled the "store show" era. There were some 22,000 of these places, starting in 1906 and reaching their maximum in about 1914. Exhibitors were, quite largely, of the fly-by-night order, moving here and there, buying, renovating and selling out.

In 1914, with the advent of the feature photodrama, large downtown picture theatres, in direct competition with the legitimate and vaudeville theatres, began building in all the large cities. Although never reaching a total number of more than 250, they became of such importance to the producers and distributors as to constitute a dominant industrial force. Not only were they able, because of their large seating capacities, to pay high rentals, but, since they gave pictures a week's run and therefore needed only fifty-two a year, they,

presumably, picked the best. This selection had a decided effect upon exhibitors in the surrounding territory. Also, the newspaper advertising on each picture acquainted the public with it throughout the city and neighboring towns. So, very quickly, these large city, first-run, theatres acquired the name of "key theatres." They unlocked bookings with other and lesser theatres and they stimulated public patronage in their respective districts.

This, however, is somewhat theoretical. Because of the generally competitive effort to get pictures into these "key theatres," they often got them at very low rentals. And soon the producer-distributor began to covet and acquire them; and their owners also got into the producer-distributing business; and all in all, these theatres were in danger of being used as "show windows" for product.

Their stage, however, is pretty well past. The investment in theatres is too heavy and their potentialities in profits too great to let them serve as cat's-paws. Also, there is the very important matter of the anti-trust laws to consider. At any rate, however, the still more powerful working of economic laws—of trade supply and public demand—is gradually putting these important downtown theatres in the shadow of the new, costly and attractive theatres that are now springing up in the city neighborhoods. Which is the third era of theatre building, to which I have referred.

Adequate parking space for the much used automobile has had a great deal to do with the inauguration of the new and finer neighborhood house; also transit facilities in general; also the fact that movie patronage is of the drop in and family order. People in general, but especially the older members of the family, do not like crowds and travel congestion; they like to go on impulse.

The fact that the picture is a trifle later in release makes no difference. So cities like Kansas City with seventy houses and Detroit with one hundred and twenty—and so on with any city—will find this number gradually diminished and replaced by much fewer, larger and finer theatres, finer in fact, in every way, than most of the present day downtown theatres.

This same change in the smaller cities and in the country districts is even more marked. There, good roads is the factor. As one country editor put it: "Every mile of new macadam spells the doom of the small town theatre." Take any country or rural section. There is always one larger town surrounded by smaller ones. These latter towns used to support one, often more, theatres. To-day, if there are good roads to the larger town, and if it has a modern theatre of ample size, superior in pictures, presentation and comfort in general, this town will draw the patronage. With a thousand or more such theatres, averaging a thousand seats, and suitably distributed, you could to-day, with a sufficiently long run, show a picture to nearly all the theatre-going population of the country.

The change to the larger theatre is steadily going on. To-day, however, the great preponderance of all the theatres are small ones. There are about 800 that have fifteen hundred seats or over. Less than twice this number will comprise the larger houses which to-day pay three-quarters of the picture's rental earnings.

Motion Picture News has just completed a painstaking canvass of the picture theatres of the United States. I give here some brief facts.

A total of 14,673 theatres is established. This number is about equally divided above and below towns of 5000 population.

Five thousand five hundred and eighty-one towns under 2500 population have 5812 theatres, an average close to one theatre per town. Only a few years ago there were at least two competing theatres in many of these towns. Towns from 2500 to 5000 population average one and one-third theatres per town; from 5000 to 10,000 population the average is one and three-fourths; from 10,000 to 15,000 population less than three houses per city; from 15,000 to 25,000 population not quite three and one-half. This represents a heavy decline in the number of theatres in communities from 25,000 population down.

Twenty-two per cent of all the theatres are in the cities of 100,000 population and over.

Of the states, New York with 1208 theatres, Illinois with 1018, Pennsylvania with 932, and Ohio with 816 lead all the rest by a large margin. In these four states, in fact, are over thirty-six per cent of all the picture theatres of the country. Nevada has but twenty-three theatres, Delaware forty, Arizona fifty-nine, New Mexico forty-six, Wyoming fifty-two. The lowest proportion of theatres to population exists in the southern states, due, of course, to the negro population.

Within the past few years theatres have been chaining up, and the process is still going on and now involves large sections of the country. Local chains of two or more houses are common. Again, they cover a state or part of a state; entire sections, such as the South and New England, are involved. Some of the leading producer-distributors are openly after national circuits.

The canvass made by *Motion Picture News* indicated that there were some 5500 theatres owned by 1018 circuits, large and small, which owned from two to several hundred houses.

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THE FOREIGN FIELD

I have come to the limit of my article without space for the foreign situation with respect to American pictures. This is a large subject in itself, and now one of pressing importance, having the grave consideration of the governments of the world. The motion picture is not merely a commodity of world trade, but it is a great propagandist, materially affecting the trade in other merchandise and shaping the world progress in all the ways of civilization.

There must be reciprocity. That is evident. To-day this country has the best of the situation by, in fact, upwards of eighty-five per cent. Our producers need the foreign market. The income from abroad has grown from about twelve per cent to over thirty-five per cent. On the other hand, foreign producers cannot equal Ameri-

can production enterprise without our theatre market, which has half the theatres of the world. Foreign pictures have not been successful here; American pictures succeed abroad. This situation has led the foreign trade to charge us with a deliberate boycott; the lay press has conducted an agitation against American pictures with increasing vehemence. This is all uncalled for and ill-advised. This past summer a German picture has enjoyed a most successful run at a New York City theatre. Out of this single theatre, not a large one, the producer-distributor will take for his share more than an American picture will earn in all of Germany with its 4000 theatres. Which would indicate clearly enough that the right kind of picture, made and sold with an intimate knowledge of American taste and American trade channels and methods, will enjoy here all the success any picture deserves.

International Trade in Coal

By F. R. WADLEIGH

Editor, *Coal*

INTERNATIONAL trade in coal is governed primarily by existing and changing political boundaries as between nations and their relation to permanent geological conditions—the location of coal measures and character of the coals contained.

To properly visualize the world's coal trade, we must consider not only countries but also areas, as well as the various factors and conditions entering into the use of coal and its indirect movement after use, in the shape of manufactured products. The great industrial areas of the world have all been built largely upon the nearness and availability of coal supplies, and by far the greater part of the world's export coals comes from the great industrial nations, from the centres of manufacture, where raw materials are turned into manufactured goods into which coal enters as a basic raw material. We have, therefore, an export movement of coal, not only as coal, the raw material, but also as a component part of the manufactured goods exported.

Coal in the ground presents certain possibilities; capital, labor and transportation make it commercially effective and valuable.

International trade in coal begins at the mouth of the mine; it may even be said to begin with the original formation of the coal, as the use of any coal in international trade depends upon the geographic location of the coal deposits and the quality of the coal. Nor is the international coal trade directly concerned with returns to capital and labor and their relative value; it pays the market price, regard-

less of the capital invested or the wages of the miner or the system of mining; it is not concerned with legislation or politics.

The market price at the port of shipment is usually the starting point of the export coal trade. Four main elements enter into this price:—the total cost of production and selling, the quality of the coal, the cost of transportation and the return to capital invested. Of these four elements, only the transportation cost is fixed; the others may and do vary, even on similar grades of coal.

EARLY HISTORY OF THE EXPORT COAL TRADE

Great Britain and Coal Exports

The beginnings of foreign trade in coal, as far as we have record, go back to A. D. 1325; Galloway¹ mentions a reference by Brand to an export of coal in that year, when a ship of Pontoise, in France, brought a cargo of corn to Newcastle-on-Tyne and returned freighted with "*Charboun de Meer*," or "sea coal."

In 1362, the export of "sea coal" from England was prohibited, but in 1367 an exception was made in favor of Calais, the only port on the Continent to which shipments of "sea coal" were allowed at that time. By the middle of the 16th century, the British coal export trade had attained some importance, so much so that the question of prohibiting coal exports was considered by Parliament in 1549 and again in 1552, when, it is mentioned, coal could be purchased at

¹*Annals of Coal Mining*, 1st Series.

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2/2 per chaldron (2000 lb. about) at Newcastle and was sold in France at £4, 6/8. In 1609, about 14,000 tons were exported from the Tyne and the Wear. Probably the first foreign shipments from the Bristol channel ports were made about 1617, which may have been the forerunner of the vast export trade of to-day from those ports. In 1794, 150,000 tons were shipped abroad from Workington, and in 1799, 33,228 tons from Swansea.

The first million tons of annual exports was reached prior to 1841, in which year the total was 1,848,294 tons. From that year on there was a steady increase, at varying rates; in 1873, a total of 16,076,688 had been reached, and in 1913, the maximum annual exports amounted to 76,688,446 long tons (exclusive of foreign bunkers), an amount not reached in any year since.

The following table, taken from the recently issued report of the Royal Commission on the Coal Industry, Vol. I, gives comparative figures of the British and United States coal export trade:

For the first four months of 1926, the total export of all coal from Great Britain and the United States was as follows, in long tons:

	Great Britain	United States
Coal.....	17,481,230	4,879,437
Coke.....	722,569	291,059
Manufactured fuel.	405,608	.....
Total.....	18,609,407	5,170,496

U. S. Export Coal Trade

Although coal was exported from the United States as far back as 1790 or 1791, 3788 bushels (about 135 tons) having been shipped to foreign countries during the financial year ended September 30, 1791, our real export trade did not begin until about 1848.

The table on following page sets forth the earliest export trade results.

From 1791 to 1803, about 8900 bushels were exported yearly and it is interesting to note that during this period the territories receiving our exports did not figure very largely in

United States of America				United Kingdom		
Period	Production of Bituminous Coal and Anthracite	Quantity of Coal Exported (including Foreign Bunkers)	Percentage of Production	Production of Bituminous Coal and Anthracite	Quantity of Coal Exported (including Foreign Bunkers)	Percentage of Production
Annual Average	Millions of Tons		Per Cent	Millions of Tons		Per Cent
1800-1903.....	263.51	7.72*	2.9	224.35	59.24	26.4
1900-1913.....	457.72	25.13	5.5	209.59	88.37	32.8
Year						
1913.....	508.89	31.31	6.2	287.43	98.34	34.2
1922.....	425.85	18.33	4.3	249.61	87.34	35.0
1923.....	587.41	30.09	5.1	276.00	102.82	37.3
1924.....	510.37	23.82	4.7	267.12	81.75	30.6
1925.....	522.40	24.19	4.6	244.42	68.97	28.2

* Particulars of the coal shipped as foreign bunkers are not available prior to 1906.

UNITED STATES EXPORTS OF COAL
Financial Years—October 1 to September 30
(Bushels)

	1791	1792	1793	1794	1795
Dutch West Indies.....	144	324	55	612	300
British West Indies.....	570	2,027	....	800	1,713
British East Indies.....	....	720	....	125	202
French West Indies.....	1,526	5,720	3,000	....	....
East Indies, Generally.....	828	4,232	7,920	....	....
Africa.....	720	....	....	....	....
Cape of Good Hope.....	....	....	3,744	....	....
West Indies, Generally.....	....	....	....	720	....
Danish West Indies.....	....	....	....	....	1,414
Grand Total.....	3,788	13,023	14,719	2,257*	3,740

* 140 bushels should be added to this, destination not given.

Total Exports (Bushels)

1796.....	9,536	1799.....	18,587	1802.....	15,422
1797.....	11,432	1800.....	8,406	1803.....	1,000
1798.....	512	1801.....	16,334		

Exports by States (Bushels), 1791

Mass.....	1,548	N. Y.....	126	Va.....	1,470
R. I.....	144	Pa.....	500	Total.....	3,788

our future trade, with the exception of the Danish West Indies, to which we first exported coal in 1795. However, there was also a shipment to the West Indies in 1794 and this was evidently the beginning of our export trade to Cuba.

For several years after 1803, there were no records of coal exports, and it was not until 1848 that the trade really started. Exports to the so-called British-American colonies appeared during that year when 6335 tons were shipped to them out of the total of 9309. Canada, as such, did not receive any of our exports until 1849, when 3263 tons, out of a total of 9661, were consigned to that country. During the same year, we sent to the British-American colonies 203 tons. This was the beginning of our export trade to Canada, which was to receive in the future a large part of our total exports.

Since 1848 our coal exports have gradually increased, the peak being reached in 1920, when there were shipped out of the United States 34,390,254 long tons of bituminous coal and 4,823,776 tons of anthracite.

The greatest demand from foreign countries for our coal came in 1920, due to conditions brought about by the war; in 1921, our overseas export trade was aided by the British miners' strike, but fell off greatly in the last four months of that year.

Except for a slight increase in January and February, 1922, coal exports in that year decreased until September, gradually increasing to the peak of June, 1923, when for that month a total of 2,837,000 tons of coal were exported, of which 595,700 tons went overseas. The heavy movement overseas in 1923 was largely due to the French occupation of the Ruhr district in January of that year, and the con-

sequent stoppage of shipments of coal and coke from that district. During the balance of 1923, coal exports fell off—December overseas tonnage was 227,500—with a total overseas exports for the year of 4,064,500 tons.

In 1924, no especial features were developed in the overseas trade, which showed a progressive decline during the year to 207,900 tons of bituminous coal in November, but a decided increase in December, and a total for the year of 3,875,800 tons. Of this amount, 1,117,461 tons went to South American and 1,362,747 to European countries; our total export of bituminous coal to all countries was but 3.15 per cent of the total production, or, for all coal exports, including foreign bunkers, 4.7 per cent, as against 30.6 per cent of total production exported from Great Britain on the same basis.

In 1925, there were again no especial features in our overseas coal export trade, which decreased slightly from that of 1924, or from 3,875,800 tons to 3,605,670 tons; of the latter total, 819,125 tons went to South America and 1,036,274 tons to Europe. The total exports of bituminous coal to all countries was 2.98 per cent of total production, or, including foreign bunkers, anthracite and coke, 4.6 per cent, as against 28.2 per cent of total production exported from Great Britain.

In 1926, the first four months showed an increase in overseas bituminous coal shipments over both 1924 and 1925, as follows:

	(First Four Months)
1924.....	1,300,719
1925.....	1,126,250
1926.....	1,406,270

Bituminous overseas exports for April (407,450 tons) were greater than for any month since July, 1923 (with one exception, July, 1924). The far-reaching effects of the British strike,

still on at date of this writing (June 15), will undoubtedly bring about a considerable increase in our overseas exports, but no accurate figures, later than those of April, are available.

The data contained in the following tables give an accurate and clear picture of our export coal trade, its growth and fluctuations.

It is a well-known fact that both United States coal and coke exporters have been severely criticized in foreign countries for the poor quality of some of the shipments, as not being up to either description or specifications; the business methods of some of the United States exporting companies have also been the subject of adverse comment. Some, at least, of this criticism was warranted and was generally caused by irresponsible, ignorant and unscrupulous persons, who only went into the coal export trade at its height and had no regard for trade ethics or common honesty.

PROBLEMS AND ESSENTIALS OF EXPORT COAL TRADE

Without discussing the question of the advisability of our exporting coal at all, if we decide, as a nation, to permit and encourage an export coal trade, those who expect to engage in it must be prepared to consider it as a part of their regular business and be willing to follow it up through good and bad years; not giving up foreign markets when domestic markets are good, and only exporting when there are not sufficient demands at home.

There are certain essentials that should be included in any plans for developing export trade as a permanent business, if they are to be successful. These are:

- (1) A sufficient available tonnage of the coals needed, as follows:
 - (a) Low volatile steam coal.
 - (b) By-product coal.

UNITED STATES EXPORTS OF COAL AND COKE
(Long Tons)

Year	Anthracite		Bituminous		Coke	
	Canada	Other Countries	Canada	Other Countries	Canada	Other Countries
1848.....						
1850.....			9,309 (all coal)			
1855.....			38,741 "			
1860.....			110,586 "			
1865.....			187,059 "			
1870.....			133,331 "			
1875.....				106,820 (all countries)		
1880.....				203,189 "	1.77	
1885.....				222,634 "	3.49	
1890.....				683,481 "	1.35	
1895.....	731,127	44,626	548,102	587,966	0.82	
1900.....	1,332,165	65,039	1,680,489	694,499	0.66	
1905.....	1,737,446	39,873	3,670,081	1,741,248	0.92	
1910.....	2,265,377	46,705	4,676,674	2,031,114	1.33	
1911.....	2,896,804	56,829	7,255,714	3,157,725	2.24	
1912.....	3,088,424	57,964	8,627,963	3,911,136	3.14	
1913.....	2,922,531	56,571	10,671,982	4,037,658	2.69	
1914.....	4,545,976	79,505	11,981,443	4,101,658	3.07	
1915.....	3,897,565	61,749	11,472,397	4,232,569	3.18	
1916.....	3,621,234	60,924	8,245,103	6,167,892	4.06	
1917.....	4,070,848	94,804	11,839,447	7,017,899	4.00	
1918.....	4,988,240	975,426	16,177,571	5,107,749	3.68	
1919.....	4,277,933	157,610	16,191,364	3,764,645	3.82	
1920.....	4,349,564	93,827	10,670,490	7,317,176	4.74	
1921.....	4,435,966	388,810	14,481,844	19,787,891	4.27	
1922.....	4,035,014	141,207	13,915,377	6,745,556	3.15	
1923.....	2,296,830	68,757	9,677,320	1,405,792	5.52	
1924.....	4,454,419	90,347	15,037,454	4,123,589	6.78	
1925.....	3,540,062	47,974	11,395,760	3,875,785	3.51	
1926.....	2,765,372	75,382	11,962,598	2,605,673	4.23	
1927.....	620,255	15,331	2,837,581	1,406,270	3.15	
(1st 4 mos.)					2.98	
						872,013 (all countries)
						946,474 "
						905,819 "
						675,734
						543,764
						198,712
						152,712
						449,701
						678,450
						297,948
						369,892
						781,092
						941,932
						395,969
						283,896
						356,383
						290,767
						530,485
						203,251
						70,637
						89,922
						435,156
						42,244
						546,461
						805,971
						45,697
						13,363

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INTERNATIONAL TRADE IN COAL

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OVERSEAS SHIPMENTS OF ANTHRACITE, BITUMINOUS COAL AND COKE

By Months, 1920-1926 (First Four Months)

(Long Tons)

	Anthracite	Bituminous	Coke
1920			
January	14,527	791,258	28,602
February	17,410	627,536	25,747
March	35,629	860,905	24,001
April	16,150	1,591,943	18,480
May	6,734	1,684,368	9,817
June	25,608	1,938,486	15,010
July	65,150	1,872,080	26,597
August	89,654	2,241,555	30,522
September	28,170	3,256,501	20,276
October	37,035	2,585,337	27,214
November	30,426	20,107,763	23,729
December	23,529	1,350,457	28,945
1921			
January	16,365	1,070,920	13,510
February	22,502	629,810	8,881
March	11,969	560,283	4,383
April	16,465	748,440	4,006
May	19,901	1,376,128	2,761
June	16,176	1,902,016	7,577
July	5,607	1,341,016	7,763
August	5,394	376,003	2,243
September	8,746	176,794	4,025
October	3,473	205,586	500
November	9,133	188,115	7,250
December	5,560	148,099	8,728
1922			
January	4,784	119,897	6,879
February	13,429	152,791	8,000
March	21,802	212,992	3,096
April	1,178	261,589	11,932
May	5,550	127,405	3,198
June	1,266	112,711	9,688
July	1,183	76,279	5,942
August	420	51,941	5,365
September	1,268	64,213	6,443
October	5,836	83,983	8,803
November	6,487	55,054	6,488
December	6,239	192,838	13,854
1923			
January	9,279	79,874	11,399
February	7,201	75,204	12,026
March	6,316	300,157	42,461
April	8,680	492,828	140,623
May	6,914	666,122	101,011
June	7,079	595,773	18,678
July	18,134	570,654	10,734
August	6,674	350,169	30,203
September	7,924	249,741	23,369
October	2,269	230,302	15,367
November	10,201	207,571	14,465
December	426	227,559	14,357

OVERSEAS SHIPMENTS OF ANTHRACITE, BITUMINOUS COAL AND COKE—Continued

	Anthracite	Bituminous	Coke
1924			
January.....	6,040	300,855	15,330
February.....	4,303	318,822	15,984
March.....	3,744	285,114	7,787
April.....	5,063	396,428	15,772
May.....	7,345	312,417	7,420
June.....	13,980	317,325	8,474
July.....	6,575	418,500	8,545
August.....	6,743	335,671	7,355
September.....	5,394	281,896	6,808
October.....	6,526	216,489	8,212
November.....	9,018	203,209	3,928
December.....	6,270	358,883	4,524
1925			
January.....	4,099	268,714	1,736
February.....	10,982	233,302	357
March.....	734	323,109	4,591
April.....	3,788	301,125	9,524
May.....	5,337	355,134	4,335
June.....	9,838	370,067	2,538
July.....	10,767	338,343	5,318
August.....	13,521	449,443	2,983
September.....	1,897	232,716	3,641
October.....	2,705	183,397	3,391
November.....	104	266,467	2,384
December.....	113	259,186	1,630
1926			
January.....	147	268,305	4,589
February.....	96	327,572	2,334
March.....	56	402,853	4,527
April.....	5,123	407,450	1,521

(c) Gas coal.

(d) Locomotive coal.

- (2) The preparation of coal for foreign trade equal to or better than that given coal for home use.
- (3) The scientific and accurate classification of export coals, by analysis and physical characteristics, with the acquiring of accurate data regarding their quality, uses to which best adapted and best methods of use.
- (4) A well-organized export department, to include a direct representative abroad, under entire control and not handling any other coals, unless with permission; also a first-class steamship man. The foreign representative should have a thorough

knowledge of not only United States coals and competitors, but also of the foreign coals, their prices and agencies, the various markets, harbors and coal-handling facilities, ocean freights, etc.

- (5) Banking and credit connections in foreign countries, branches of United States banks preferred.
- (6) The use of all United States Government facilities and agents.
- (7) It would be highly advisable, in fact necessary, if it is desired to stay in the export trade permanently, to carry at certain selected ports a stock of the coals handled. Failure to do this has been the cause of the loss of much trade to our foreign competitors.

- (8) Close touch must be maintained with prices, costs, steamship rates and conditions.
 - (9) There must be ability and willingness to give foreign users the kind of coal they want, not the kind the exporter thinks they ought to have or that he would like to sell them.
 - (10) In addition to the coals mined or controlled, it has generally been thought best, if coals produced are not sufficient in amount of output, or if certain classes of coal not produced are needed, to make contracts for selling coal from other mines; this instead of buying certain amounts of other coals as needed at various times, and in order that the term "exclusive agents" can be used in advertising and correspondence.
 - (11) It will be advisable to do a certain amount of advertising in foreign trade papers; a description of coals, selling methods, service, etc., printed in French, Spanish and Italian is recommended.
 - (12) As it is expensive to have a personal representative in every market, the selection of agents with good connections and good financial business standing must be given careful consideration. Many promising export coal possibilities have been ruined in the past by the selection of incompetent or dishonest agents. Foreign representatives should gather, as soon as possible, data in the greatest possible detail, regarding consumers, their plants, methods of use, financial standing, and the amount and kind of coal consumed, etc. In this collection of data should be included all available information regarding foreign coals, new methods and conditions of use, discoveries of new coal fields in foreign countries, new harbors, docks and handling appliances, transportation rates, etc.
- systematized. Lack of sufficient information regarding such matters has been, in many cases, the cause of our coal agencies failing to secure contracts in foreign countries, or of losing money on those they did secure.
- (13) The foreign buyer must be made to understand that the exporter is in the export business to stay, through good times and bad, no matter what the condition of the domestic coal market may be.
 - (14) There should be close co-operation with the tidewater coal carriers.
 - (15) The more extended use of the U. S. Department of Commerce service and facilities for assisting foreign trade.
 - (16) The adoption of some plan for putting our export coal trade on a more honorable and stable basis with the elimination of the irresponsible and crooked exporter, whose existence and methods have done so much to discredit the trade.

There is another important matter to which our exporters have not as a rule given attention—the fact that the majority of ports of discharge in foreign countries are not equipped to accommodate and discharge the five to ten thousand cargo ships that we usually load. There is apparently a promising market for our coal at the smaller ports, which can only take up to 3000 ton cargo ships, and it is suggested that our exporters would find it worth while to investigate this field, the possibilities of which are fully realized and taken advantage of by the British coal exporter.

FOREIGN MARKETS FOR U. S. COALS

At present, the foreign markets for United States coals are limited. The most promising markets are, of course, South America and the Mediterranean countries, but there are a number of other possible (at times) markets that should not be overlooked, viz.:

These data should be gathered currently, kept up to date, and

Norway, Sweden and Denmark
 Portugal
 French West Africa
 Atlantic Island Coaling Stations
 Germany
 Holland

The markets of Canada, the West Indies, Mexico and Central America are not subject to the competition of foreign coals, or at least only to a very limited extent.

We should clearly understand the difficulties to be overcome in establishing permanent markets for American coal in European countries. The balance of ocean freights and movement is against the United States. Our imports consist largely of manufactured goods from Europe; our exports are largely of raw materials in bulk, such as grain, cotton, iron and steel, etc., while Great Britain imports the latter class of commodities and uses coal for the outward voyage.

As regards South American markets, compared with those of Europe, the situation differs to some extent, and the export and import situation is more favorable to the United States. On the face of it, we should be able, therefore, to compete successfully for the South American trade. The market for coal in South America, however, has grown smaller since before the war, partly owing to the more extended use of oil fuel on both the east and west coasts and partly to the installation of hydro-electric power, especially in Brazil and Chile. Any great industrial development in South American countries can hardly be expected for some years at least, for three reasons: (1) the climate, (2) the small population per square mile, and (3) lack of transportation.

While our coal production costs are lower and the output per man much greater than in Great Britain and in other coal exporting countries, our

export coal trade is handicapped by the greater distance of our mines from tidewater.

RAIL TRANSPORTATION CHARGES ON . EXPORT COAL

In the United States coal export trade, owing to the geographical location of our mines, the cost of transportation is a most important factor. For example, of to-day's f.o.b. price (\$4.75 per gross ton) of coals from the Pocahontas in New River (W. Va.) fields (the source of the greatest tonnage of export coals), the cost of transportation (railroad freight rate) from the mines to tidewater is 53 per cent (\$2.52). This leaves but \$2.23 to cover total production and sales cost and profit.

And just here lies one great obstacle which our export coal trade has to overcome in competing for international trade, as our strongest competitor, Great Britain, with mines located at or near tidewater, has much smaller coal transportation costs on export coal, sufficiently so to more than make up for her higher production costs and slower ship-loading methods.

Take, for instance, the average price of Welsh steam export coal at Cardiff, 20/ (\$4.90), with which coal our Pocahontas and New River coals must compete in the export trade; the average freight rate from mines to tidewater was 1/6 (\$0.30) or 0.6 per cent of the f.o.b. price; the average haul for Welsh coal being twenty miles. Although not applying to export coal, it is of interest to note that the average rail freight rate on *all* British coal last year was 3/7 or about \$0.86.

It would seem, therefore, that, notwithstanding our lower production costs, our export trade efforts are handicapped, to an appreciable extent, by comparatively high rail transportation costs. Whether the latter are justified by the long haul from mines to tidewater (350 to 420 miles) is a

question that must be answered by the railroads and the rate-making authorities. But it is reasonably certain that a reduction of even fifty cents per ton in the existing rail freight rates on export coal from the mines to tidewater, would add considerably to the volume of our overseas export coal trade.

Further, only our best Eastern coals are suitable for the export trade, as they must compete with the best British steam, gas and coking coals, whether used for steam-making, for gas-making, for metallurgical purposes, or as locomotive fuel.

STEAMSHIP BUNKERING TRADE

The bunkering of foreign steamships is an important market, not so much now as it was previous to 1914, when it was estimated that about 80,000,000 tons of coal were consumed in the world's bunker trade. The increased use of fuel oil has made heavy inroads into the coaling of ships, although there is to-day a strong tendency toward a return to the use of coal on cargo ships, partly because of a change in relative prices, as between coal and oil, partly because supplies of coal have a wider distribution among the world's ports, and to some extent on account of displacement matters.

MIXING COALS

While we have carried to a much more extended use the mixing of coals for use in making coke than has been the case in other countries, we have not adopted the British method of mixing coals at tidewater for special uses. It is the so-called mixed cargo that is one of the best paying of the British export coal trade practices. This is particularly the case at the less important receiving ports, where one cargo will supply several small consumers, each with a grade or quality to suit his particular needs.

CONCLUSIONS

After all, however, it seems reasonable to expect that, if our exporters really want the business and pursue it, according to accepted methods in the world's coal export trade, with properly prepared coals, and with due regard to foreign customs, methods and use, they may expect to secure a reasonable share of the trade, if their efforts are continued on a permanent basis.

But foreign competition has to be met, a competition which has almost negligible rail freight rates on its coal, its own ships and the certainty, generally, of return cargoes (the last named is another of our handicaps and a difficult one to overcome); long continued business relations and familiarity with foreign coals and their use; strong banking connections entirely familiar with export trade conditions and practices. Yet, in spite of every disadvantage, we have had and still have a worthwhile share of foreign coal trade, susceptible of increase at a profit, if pursued in the right way, and desirable from other standpoints.

To-day's conditions and the future outlook, as far as we can see it, point to this as the time to make combined, energetic, intelligent and effective efforts to increase our overseas coal export trade.

The situation in the British coal fields, the strong probability of improved industrial conditions in Western European and Latin-American countries; these conditions, reinforced by consolidations of properties and sales agencies, centralized and more intensive management with greater use of machinery in this country—together with the comparatively low labor costs in our non-union fields (from which comes most of our export coal)—all make this appear to be a propitious time for some consolidated effort to obtain a larger share of profitable foreign overseas coal business.

Foreign Trade and Our Merchant Marine

By A. B. BARBER

Manager, Transportation and Communication Department, U. S. Chamber of Commerce

A REVIEW of recent discussion of our merchant marine situation shows four points on which there seems to be general need for better understanding. Snap judgments on one or another of these points often serve as the basis for disposing of the whole merchant marine question without any comprehensive consideration of the subject as a whole. These four points are:

Why do we need American shipping in our foreign trade?

What should be done with the Seamen's Act and the Navigation Laws?

How is direct government aid to shipping justified?

Should the Shipping Board be reorganized?

In endeavoring to answer these questions I will draw largely on the reports and facts brought out by the National Merchant Marine Conference which, under the auspices of the Chamber of Commerce of the United States, carried on a comprehensive study of our national merchant marine problem during the summer and fall of 1925. Included in the membership of its committees and in the Conference itself were more than one hundred and fifty representative ship operators, shipbuilders and leaders in the various fields of commerce, industry, agriculture, labor, finance and insurance interested in the shipping problem. They had the benefit of regional shipping conferences held in some thirteen of the principal centers on the Atlantic, Gulf and Pacific coasts, on the Great Lakes and in the interior. This Conference developed reports of fact and recommendations

which offer to those interested an unusually clear and complete analysis of the national shipping situation.

Why do we need American shipping in our foreign trade? There are those who hold the view that we have little, if any, need for a merchant marine except possibly for purposes of national defense. According to this view, apart from considerations of defense, the nation which can carry our goods cheapest should be allowed to do so, and competition among foreign carriers for our trade should be relied upon to insure the shipping services we need at reasonable rates.

Persons who express this view, however, are generally those interested in trades through the largest ports which have for years had direct shipping connections with all principal foreign trade regions. Such shippers, although they may be satisfied with the services furnished by foreign vessels in the particular trades in which they are interested, overlook several facts. They overlook the markets from which Americans have in the past been virtually shut out by lack of direct steamer service and the delays and added costs in reaching trade regions served only by transshipment at foreign ports. They generally attribute little value to the American flag as an agency of trade promotion and are in this in opposition to an age long maxim abundantly verified by reports of American observers in trade regions which since the war have for the first time had direct connection with this country by American steamers.

By far the greatest increases in our foreign trade in the past ten or twelve

years have been with Asia, Australia, Africa and South America. These are the long haul trades in which, since the disappearance of the clipper ship, American tonnage remained negligible in amount until the government, after the World War, set up and maintained many direct steamer services covering not only our principal ports but also many of our less developed ports, frequently referred to as the "out-ports."

It is not only the exporters and importers, and the manufacturers producing for foreign trade, who are affected by the availability of direct shipping services. The interest of farmers and other producers of the interior in an American merchant marine was clearly brought out in the regional merchant marine conferences held in the fall of 1925. For example, at certain ports on the Pacific Coast it was shown that the frequency and regularity of sailings by American flag services established since the war had made it possible to furnish American flour to Oriental merchants in quantities which they can economically handle, whereas before the war, when only irregular service by tramp or chartered steamers was available, the business went to our competitors. It is thus the direct American flag services sailing on regular dependable schedules which aid greatly in establishing increased outlets for our agricultural and industrial products. If there were a more definite assurance of permanency for these services on a sound basis of private operation, it would doubtless still further increase the confidence with which American business men could take part in this foreign trade and would justify their investing more capital in trade development measures.

The Merchant Marine Conference, after analyzing the shipping requirements of our foreign trade, compared them with the shipping requirements

of the national defense and found that, if the former are reasonably provided for, little if any additional shipping will be necessary to meet the needs of the national defense. Therefore, if the shipping requirements of our foreign trade are met, the national defense motive for supporting our merchant marine, while of itself important, falls, as a practical matter, into second place. It serves, however, as an added reason for proceeding with a sound merchant marine policy.

What should be done with the Seamen's Act and the Navigation Laws? The questions involved in the Seamen's Act and the Navigation laws are widely misunderstood, with the result that our national shipping problem is beclouded. The impression seems to be widespread that the Seamen's Act allows American steamers to carry only American seamen and fixes their wages, and that its repeal would do away with the main handicap against our steamers. These impressions are incorrect and among those who are most familiar with the operation of the Seamen's Act there is no demand for its entire repeal, but a general recognition of the fact that it contains many desirable features. There is, however, an equally clear conviction that some of its features are disadvantageous to both the seamen and the shipowners, and that they should be modified. These are details of the Seamen's Act which could be corrected without affecting its main principles. The provisions in question are chiefly those which have no relation to the maintenance of living standards, but which interfere with discipline and efficiency in steamer operation, such as the requirement for payment of half wages at foreign ports, even when the seaman concerned has a record of drunkenness, desertion, incapacity through use of drugs or other disorderly conduct resulting in delayed sailings

and lack of proper discipline. Other provisions recognized as requiring investigation by competent authority are those relating to the seasonal restrictions on the Great Lakes, which are held not to be in accord with the facts of lake navigation conditions, and the crew employment provisions, which are considered not to be suitable for services involving runs of only a few hours between ports. Other laws affecting shipping which should be modernized include those governing responsibility for accidents to marine workers, including longshoremen, those relating to documentation and measurement of vessels, including the Panama Canal measurement rules, and the laws and rules relating to the inspection of vessels and safety of life at sea.

Shipping, one of our major industries, lapsed into a minor position during the fifty years preceding the World War, but was again brought into a position of major importance as a result of the war. It is, however, still governed by obsolete laws and regulations. The Shipping Board has for ten years had authority and direction of law to revise the laws and regulations applicable to shipping, but aside from some preliminary studies nothing appears to have been accomplished in this direction. There may be question as to whether our overseas shipping will be maintained as one of our major industries or whether it will lapse again into a minor position. However that may turn out, it is certainly entitled, in the meantime, to have the advantage of operating under modern laws and regulations. The recommendation of the Merchant Marine Conference was that Congress should authorize the appointment of a special technical commission to undertake this revision.

How is direct government aid to shipping justified? The answer to this

question lies in the essential difference in character between the business of providing shipping for service in the foreign trade and the business of producing agricultural or industrial products for the market.

Ships must be designed and built for a particular type of service, for example, for the overseas "trade route services" so important to the upbuilding of our foreign trade. If shipping enterprises are to be successful in these trades, they must be definitely committed to them for an indefinite period of years and be prepared to maintain service, until they can establish connections and build up traffic to a profitable point. The unit in the overseas shipping business, the shipping line or the individual ship in foreign trade, is therefore practically once for all committed to a business which must be conducted outside of our tariff barriers and in competition with all comers.

Shipping is a service agency of all export and import trade. It serves all fields of production which share in this trade. There would be no justification of government aid to shipping only to enable shipowners to have a profitable business. There would be no justification of such aid to shipping to serve only a single industry. It is the service which American shipping, directly or indirectly, renders to practically all branches of American enterprise that justifies direct aid to enable it to maintain this service.

It should be clearly understood that there is a radical difference between the form of government aid which is at present contemplated and that which has been proposed in the past. It is contemplated that aid will be given only in the form of contract payments for the maintenance of services needed in the interests of the expansion of foreign markets for our agricultural and industrial products. Most of the for-

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eign shipowning nations, including England, France, Italy and Japan, have, in one form or another, made extensive and successful application of this trade route contract system. The same principle has to a certain extent been followed by Congress in authorizing mail subventions, but this has received only limited application.

Should the Shipping Board be reorganized? The findings of the Merchant Marine Conference were very definite in this regard. Their report stated the attempt to combine in the Shipping Board (a) semijudicial, regulatory duties, (b) certain responsibilities for the promotion of shipping, and (c) the executive function of administering and disposing of the government-owned fleet and other shipping property, is unsound in theory and unworkable in practice.

There is general agreement that the quasijudicial regulatory duties can best be performed by a board or commission. Many feel that such duties with regard to shipping should be entrusted to the Interstate Commerce Commission, which already has supervision over railroad-owned steamship lines and that portion of the business of other lines which forms part of through rail and water hauls. However, a large majority of those who have expressed themselves on the subject favor having the regulatory duties of the Shipping Board entrusted to a reduced Shipping Board or Merchant Marine Commission of three members. This proposition was carried by a vote of 1590 in favor to 275 opposed, in the referendum taken by the Chamber of Commerce of the United States among the commercial organizations and trade associations throughout the country, subsequent to the Merchant Marine Conference.

The duties assigned by law to the Shipping Board for the promotion of merchant shipping are in large part also assigned by law to the Department

of Commerce, which has carried on extensive activities at home and abroad to these ends. Such work is distinctly of a character which, under the organization of our government, belongs to the executive branch. It is the type of activity for which the Department of Commerce was created and it appears that in any reorganization of the Shipping Board this class of duty should be transferred to that Department.

There has also been a conflict of jurisdiction between the Shipping Board and the engineers of the War Department with regard to the investigation and study of ports and water terminals in the United States. The Shipping Board has, however, discontinued its studies of this question and the War Department engineers are carrying them on.

The function of the Shipping Board with regard to which most controversy has arisen, is that of administering and disposing of the government-owned fleet. This function has overshadowed all other activities of the Board. Here are focused many conflicting views and interests. There are those who advocate government ownership opposed to those who are convinced that the elimination of the government from the shipping business is indispensable to its establishment on a permanent and successful basis. There are the aspirations of the "outports" for frequent and permanent shipping services opposed to the convictions of many that the maintenance of such services at heavy losses to the government is contrary to natural economic laws and constitutes unwarranted subsidy to particular ports. Besides these two principal conflicts of view, there is a whole maze of personal and political controversy which seems to be inevitable with an organization in which there is such a division of responsibility.

The proposal made by the Merchant

Marine Conference and the Chamber of Commerce of the United States for correcting this condition involves the divorce of the Fleet Corporation from the Shipping Board and the assignment of executive responsibility to the President of the Fleet Corporation, under supervision of a board of directors or national shipping council made up of cabinet officers and regional representatives appointed from private life and serving with nominal compensation.

Those opposing any change in the present Shipping Board have asked the question as to how such a shipping council may be expected to prove more effective as a board of directors than the present Shipping Board. They argue that members of a board of directors who give only occasional services on a per diem basis will not have the current intimate knowledge of the work of the Fleet Corporation that would make them efficient board members. According to this argument it is an advantage to have the seven members of the Shipping Board devote the maximum of time to this work.

A careful study of the history of the Shipping Board and its workings will show that this argument is untenable. With the members of the Board giving their entire time to the work, it seems inevitable that they will become involved in details of the administration of the Fleet Corporation and deprive the President of the Fleet Corporation of all genuine initiative and responsibility. Instead of serving as a true board of directors to review the proposals of the responsible executive and to deal only with major policy questions, they become immersed, as experience has shown, in the minute detail of the matters which are to come before them. It has been a common procedure for persons having dealings with the Fleet Corporation, after discussing the matters with the President of the Corpora-

tion, to call upon one after another of the members of the Shipping Board to secure their support of a particular proposal. It is difficult to conceive of a business corporation which could present any consistent and successful policy with such a relationship between the president of the corporation and the board of directors. A board of directors, besides representing all the important interests in the corporation, should by their other business connections bring to the councils of the corporation current practical knowledge of conditions in allied fields affecting the corporation's business. They should be able to give well considered attention to such business of the corporation as requires action by the board, but should not be so constantly dealing with the affairs of the corporation as to interfere with the work of the president and destroy his real responsibility.

In the case of the Fleet Corporation, it was the judgment of the Merchant Marine Conference that the function corresponding to that of a board of directors should be given to

a national advisory board to be appointed by the President of the United States, with one of the members of his cabinet as chairman, and with the addition of regional advisory boards to sit with the national board in determining policies affecting those regions in connection with the increase, decrease or sale of trade route services.

Subsequently a Committee of the Chamber of Commerce of the United States further considered the same question and reached a conclusion similar to that of the Merchant Marine Conference. This Committee recommended that there should be established as the board of directors of the Fleet Corporation

a Federal shipping council to be appointed by the President of the United States and to consist of five cabinet officers, with the Secretary of Commerce as Chairman ex

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office, the President of the Fleet Corporation and five regional representatives to serve without compensation other than expenses.

The creation of a Federal shipping council for this purpose was approved by the member organizations of the National Chamber by referendum with 1503½ votes in favor to 344½ votes opposed. Substantially the same type of board of directors was provided for in the bill introduced at the last session of Congress by Congressman Robert L. Bacon who, however, provided for seven instead of five regional representatives.

A board of directors for the purposes indicated can obviously be set up in a number of different ways. The essential point, however, is, first, to insure proper representation both of the regions of the country interested in the maintenance of trade route services and of the government departments concerned and, second, to make it certain that the members of the board will be able to give enough, but not too much, time to the Corporation's affairs. This will further the establishment of a sound responsible administration.

The extent of the shipping services which the government is maintaining through the Fleet Corporation, especially in the overseas competitive trades, is shown by the following table giving the approximate tonnage of American steamers of 1000 gross tons and over as of April 1, 1925:—

	Gross Tons
On the Great Lakes—Privately owned.....	2,000,000
In the coastwise service—Privately owned.....	2,230,000
Ocean-going tankers—	
Privately owned.....	2,080,000
Government owned.....	180,000
In service to West Indies and Carribbean—	
Privately owned.....	290,000
Government owned.....	30,000

In service to Europe—	
Privately owned.....	100,000
Government owned.....	1,000,000
In service to Asia, Australia, Africa and South America—	
Privately owned.....	530,000
Government owned.....	720,000
Laid up—	
Privately owned.....	330,000
Government owned.....	3,360,000
Total approximately.....	12,910,000

Aside from the oil tankers, a few industrial carriers, and vessels under conditional sales contract with the Shipping Board, whereby the purchasers are required to maintain service for a five-year period in consideration for great reductions in price at which the vessels were sold, there is but a small amount of tonnage engaged in overseas trade route services under the American flag. These services are in greater part being maintained by the government, the Shipping Board having 1,000,000 gross tons of tonnage in service to Europe and more than 700,000 gross tons in service to Asia, Australia, Africa and South America.

As already indicated, it is of great importance to our foreign trade that these shipping services, particularly those to the relatively undeveloped trade regions in the second group just mentioned, be maintained on a permanent basis. It is clear, however, that to continue the government indefinitely in the steamship business would be wasteful, because of the inherent inefficiencies of government operation, and would be contrary to the fundamental principles on which the economic development of this country is based. It is to the public interest that the government should withdraw from the shipping business as rapidly as arrangements can be made that will reasonably assure the successful maintenance of the essential trade route services by private enterprise. The solution of

the problems involved calls not only for sound action by Congress and the Federal administration, but also for a better understanding and participation in dealing with these matters by those concerned throughout the country.

To meet this need it has been proposed that, in addition to a Federal Shipping Council including in its membership a representative of each of the principal sections of the country concerned in the merchant marine problem, there should also be a regional advisory shipping council for each such section with membership widely representative of all the various interests concerned with shipping in that section. These sections would include not only the major divisions of our coastal territory, but also the Great Lakes region and the interior. Our inland states are more and more realizing their dependence upon adequate shipping services to provide the most economical and efficient outlets for their surplus agricultural and industrial products. The proposed regional councils to promote the study and understanding of the shipping questions affecting each region will, it is believed, be of great value not only in enabling the Federal shipping administration to give proper consideration to the needs of all sections, but also in promoting a local understanding of these questions and gradually developing nationwide support for an American merchant marine.

The importance should also be mentioned of effective organization

within the shipping industry itself, so that it will be possible for the industry to work out harmoniously the details of its various problems and unitedly present its proposals to Congress and the public.

To summarize the program outlined above, it may be said that to develop on a sound and permanent basis the American flag overseas shipping services needed to expand foreign markets for our surplus products, the American shipping industry should be placed on a sound basis through, first, correction of unfavorable legislation, second, provision of the necessary direct government aid to allow service to be maintained as the public interest requires, third, reorganization of the Federal administrative agencies having to do with shipping, and, fourth, the co-operation of all concerned in such a manner as to further a sound treatment of this industry and the early transfer of the present government shipping lines to a permanent basis of private ownership and operation.

In conclusion I would emphasize that it should not, of course, be the objective of our shipping industry to exclude foreign shipping from our ports, but only to take a fair share of the overseas trade of this country and to assure the maintenance of the trade building services which, in the long run, not only serve to benefit American merchants, manufacturers and farmers, but also contribute to the welfare of the other countries of the world with which we trade.

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European Tariffs and Future Markets

By CARL W. BAHR

Washington, D. C.

WAR stimulates nationalism and increased nationalism means higher tariffs; Europe is strangling itself with tariff barriers. Such is the idea widely held among those sufficiently well informed to have some knowledge of the number of tariff revisions—upward revisions—that have taken place in Europe since the war. Headlines such as “New German tariff hits American exports,” or “New duties on British imports,” or “Spanish tariff greatly increased” have become common. The general impression has been developed that European tariffs have increased tremendously.

It is therefore somewhat surprising that perhaps the only detailed study of the present height of tariffs should present a decidedly different conclusion. But a British committee, which examined this question at some length as a part of a larger study devoted to the question of foreign markets for British manufactures, came to the conclusion that instead of being higher, European tariffs were considerably lower in 1924 than they were before the war. This study,¹ while based particularly on British exports, presents conclusions of wider interest. It compares the height of the tariffs of eighteen countries in 1914 and 1924 by using a system of index numbers based on thirty important British exports. These index numbers, expressing the estimated ad valorem equivalence of the rates applicable to staple British exports in

seven European countries, are as follows:

	1914 Per cent	1924 Per cent
Netherlands.....	2½	2½
Belgium.....	10	8½
Germany.....	17½	10
Italy.....	18½	15½
France.....	21½	12½
Sweden.....	23	12½
Spain.....	42	37½

NEED FOR DETAILED STUDY²

Without taking these results too seriously, and relying on other sources of information, it may be said that the

² The Committee says: “The utmost that can be claimed for these figures is that they may be useful as indices for purposes of comparison as between different countries and different years when the basis on which they have been calculated is borne in mind. The figures have no meaning in themselves and are purely relative. No one figure can give an absolute indication of the level of any country's tariff.”

The figures were weighted according to the importance of the articles in the export trade of Great Britain in 1913. The choice of the articles and their weights argue the probability of error in using the results as a measure of tariff changes as they affect the United States. But the Committee is perhaps too severe in stating that the figures have no meaning in themselves. Whatever their margin of error, they mean that the various tariffs, reduced to ad valorem equivalents, average so much. The Committee, however, rejected the average which is usually given (based on those imports which surmount the tariff barrier being measured) in favor of an average based on the relative values of imports which surmounted the earlier tariff with which the comparison is being made. The usual method registers *prohibitive* tariff increases as decreases.

¹ Great Britain, Committee on Overseas Trade, Survey of Foreign Markets, London, 1925 (Official).

extent of the post-war tariff increases in Western Europe has undoubtedly been greatly exaggerated. In the main the illusion of exorbitant and unreasonable increases has been due to three factors:

The first is prohibitions and licensing systems which undoubtedly have been a serious impediment to normal competition. Originally introduced as war-time measures and justified by the war-time necessity to control trade, they were retained in many countries after 1918 to tide over the period necessary for the study and enactment of new tariffs based on changed post-war conditions. In Germany, for example, they were not entirely abandoned until the recent tariff went into effect on October 1, 1925. Incidentally, by means of these prohibitions, licenses and quotas, Germany was enabled largely to evade the provisions of the Treaty of Versailles, which forbade her to revise her tariff for six months and granted unilateral most-favored-nation treatment to the Allies, since by means of prohibitions all imports could be and were controlled, with relaxations only as the State desired. All the Eastern European countries, especially the Austrian Succession States, have made free use of these forms of import restrictions. In Italy, France and Belgium they were generally abandoned during 1919 and 1920.

Prohibitions and high duties on luxuries were particularly in wide use by States whose currencies were depreciating or depreciated. Governments which were issuing new currency by millions of units appeared to think that the situation would be remedied by cutting off imports of luxuries which were measured in tens or hundreds of thousands.

Import prohibitions, licenses and quotas have regularly been regarded as temporary measures. They have almost disappeared and there is little

reason to believe that they will play an important part in future trade. The League of Nations has recently proposed a convention, similar to that already concluded with respect to Customs Formalities, looking to the elimination of import prohibitions and some such convention will probably be concluded within the next few years.

Secondly, in the United States we are so accustomed to general tariff revisions or none, that we do not easily realize how many of the European "tariff revisions" and tariff increases have been of very limited scope. In many of the Continental countries, the tariff has been subject to change by executive decree and executives have made many changes, but usually upon only short lists of articles at a time. With perhaps 2000 to 10,000 articles enumerated in tariffs it takes a great many of such revisions to cover the field; but a reader glancing over lists covering perhaps ten to fifty articles gets the impression that a considerable field is being covered. This is readily shown by the oft-repeated statement that Great Britain has "gone over" to protection; as a matter of fact she has protective duties on an exceedingly small list of articles.

A third point, overlooked by the headline writers, is that most European countries use, almost exclusively, specific duties. Specific duties do not automatically adjust themselves to price increases as ad valorem duties do—though the self-adjustment of even ad valorem duties is very imperfect. Many increased rates have perhaps only restored rates which have depreciated by reason of the great price increases. And if the specific duties are not payable on a gold basis the further and more important element of currency depreciation must be taken into account. In France, for example, to increase the 1913 specific duty four

or five times would fail to restore it to the gold franc par.

A fourth factor of importance, generally overlooked, is that Continental European tariffs as enacted are usually *bargaining* tariffs; the base rates may be and usually are considerably reduced as a result of subsequent commercial treaty negotiations. In the French tariff the spread between the maximum and minimum rates is normally 300 per cent of the minimum rates, and the whole or any part of this difference may be remitted in favor of another country and all other States entitled to the same treatment. Many other countries do not, for diplomatic reasons, indicate their minimum rates. But cases can be cited of reductions granted by treaty ranging from ten to seventy-five per cent of the original bargaining rate. Obviously such reductions may—though they usually do not—carry the new rate below the old tariff rate in effect before the bargaining revision was made.

The Federal Council of Switzerland, for example, early in 1925 proposed a new bargaining tariff with considerable increases in existing rates. It frankly stated, however, that when it had completed treaty negotiations with other powers having bargaining tariffs, the rates would probably average about the same as before.

These general tariff revisions, and these bargaining tariffs, such as Germany's tariff of 1925, receive full publicity. The commercial treaties, made with one country after another, receive much less attention. But the general use in Europe (except in France and Spain) of the unconditional form of the most-favored-nation clause in commercial treaties operates to generalize the reductions. A tariff revision, therefore, which was widely heralded as another example of growing protectionism may within a year or two slip

back, unnoticed, to its previous range of rates.

A consideration of these four factors, together with the results of the study prepared by the British committee, indicate that more than a casual examination is necessary to determine whether present European tariffs are higher than prewar, and if so, to what extent. Also, inasmuch as we are particularly interested in American exports, it is important to know whether, if tariffs have been substantially increased, such increases are likely to affect our exports.

WILL TARIFF INCREASES AFFECT U. S. EXPORTS?

During and for a short time after the war, American exports expanded greatly and we began to ship abroad many manufactured articles which had previously been unable to compete in European markets. As conditions have become more settled these exports have fallen off and our trade has resumed much of its prewar character—that is, large exports of raw materials and foodstuffs and smaller exports of competitive manufactured goods. It is particularly with respect to manufactured goods that we are interested in finding markets. Most raw materials and crude foods readily sell themselves if there is any demand at all. Rather than being restricted, trade in raw materials is encouraged. As to foods, although many European countries have adopted measures of agrarian protection, if any country has a deficit of production, the tariff is generally of minor importance in checking imports. But substantial duties are usually imposed on manufactured goods and in these competition is close. And as import prohibitions disappear, as currencies are stabilized, as capital becomes cheaper, and as the industrial world resumes its normal state, what

have been relatively minor obstacles in the path of trade are assuming greater and greater importance. With this state of affairs in mind, the Department of Commerce warns that "the days of easy exporting are over" and that "American concerns need to be more careful in planning their export shipments, to take account of the tariffs and trade regulations of foreign countries upon the admission of goods."

In the consideration of the tariffs of Continental European countries certain general observations should be kept in mind. For example, since the war almost every European country has increased taxes of all kinds on luxuries. In some cases these taxes apply only to imports, but they are usually in the form of consumption taxes and apply both to imported and domestic merchandise. The products included as luxuries of course vary from one country to another, and as revenue is often the chief object of such measures, they may include automobiles, tires, fine fabrics, and many classes of highly manufactured goods which we have ceased to regard as luxuries. High rates of duty on a limited list of luxury products may readily give the illusion that the tariff is generally high, although duties on other goods may be low. Again, the luxury lists may contain many products not strictly luxuries.

Agrarian protection is usually an important factor in the tariffs of European countries. While as applied to crude foodstuffs, agrarian duties have little immediate effect, their continued application tends to stimulate domestic production and thus contract the demand for imports.

The study made by the British committee and mentioned above was based on a list of important British exports and these products may not be such as would tend to show the increases in

European tariffs likely to be of particular interest to American exports. This committee selected the following commodities as representative of British exports:

1. Pig iron, rails, galvanized sheets, tin plates, section steel
2. Spinning, weaving, reaping and binding machinery, motor cars, locomotives, stationary oil engines
3. Merchant vessels
4. Insulated electrical wire and cable
5. Coal, coke and patent fuel
6. Cotton yarn and piece goods
7. Woolen and worsted piece goods
8. Hosiery, boots and shoes
9. Soda crystals, bleaching powder, sulphate of ammonia, and sulphate of copper

It is evident that these products are by no means representative of our present exports to Europe, but they do include a variety of products, a comparison of the duties on which should give some indication of the height of the tariff in European countries. It should be noted also that few of these products are likely to fall into a luxury classification and that there are no crude or manufactured foodstuffs included. In the brief discussions following,³ therefore, certain outstanding increases likely to affect American products will be mentioned, in an effort to correct the measure made by the British committee to the American point of view.

Great Britain

The growth of protection in Great Britain has attracted much attention. Great Britain has for decades had substantial revenue duties, offset by corresponding excise taxes on domestic production, on tea, coffee, cocoa, sugar, tobacco and alcoholic beverages;

³ These discussions are confined to the present major markets for American exports to Europe. It would be impossible to include the many small countries, except in the most general way, within the limits of a short article.

but with scarcely an exception, all other products were entirely free of duty before the war.

In 1915, as a war measure and to restrict imports, the so-called McKenna duties were imposed on cinema films, clocks, watches, motor cars (not including trucks) and musical instruments. Imperial preference was introduced in 1919 and excise duties were in some cases decreased. These measures, however, had relatively little direct effect on trade. Early in 1921 the Dyestuffs Act went into effect. It prohibited, except as licensed, the importation of synthetic organic dyestuffs, colors and coloring matters, and all organic intermediate products used in their manufacture. Then on May 12, 1921, the so-called "Safeguarding-of-Industries" bill was passed and under its provisions duties were imposed on a considerable list of "key" and other products.⁴ In 1925 the Baldwin government re-enacted certain protective duties which had been repealed by the Labor government, and extended the protective system. At the present time there are protective duties in Great Britain on cinema films, clocks, watches, motor cars, musical instruments, silk and artificial silk,⁵ lace, embroideries, sugar,⁶ cutlery, gloves, gas mantles, and the "key" industries. While the complete list of products appears rather extensive when not compared with Continental tariffs, these duties actually affect only a very small proportion of British imports. The

⁴ The important "key" industries are optical glass and instruments; scientific glassware, laboratory porcelain, scientific instruments; wireless valves, rectifiers and vacuum tubes; magnetos and permanent magnets; arc-lamp carbons; hosiery latch needles; tungsten, and compounds of thorium, cerium, and other rare earth minerals; synthetic organic chemicals.

⁵ The duties on raw silk are revenue duties but the compensatory duties on fabrics contain concealed protection. The protection extended to the beet sugar industry is mainly by a bounty.

Department of Commerce says that "the increased duties and imperial preferences are not expected to make radical differences in American sales in this market of dried fruits, automobiles, silk, rayon hosiery, clocks and watches."⁶

The present procedure under which duties are imposed in Great Britain places on the industry asking protective duties the necessity of establishing a case along prescribed lines before a special committee. Under this system the rapid extension of duties which would interfere with prospective imports from the United States seems unlikely. It should also be noted that Great Britain serves as a general European *dépôt* for many American industries and in the interests of this "handling" trade it is doubtful whether serious duties will be placed on American imports. Apparently, therefore, there is little reason to believe that the tariff will be an important factor in restricting American exports to Great Britain.

Germany

The new German tariff which went finally into effect on October 1, 1925, was designed to be primarily protective to agriculture and horticulture. It increased over half the 945 items of the tariff of 1902, which still remains the basis of German tariff legislation and with few exceptions reimposed the duties suspended during the war.

Increased duties on foodstuffs are likely to be especially severe on a number of important exports to Germany, among which wheat flour, canned milk, and canned meats are important. An increase of special significance was also made in the duties on automobiles. The rates on passenger cars run from 175 to 200 gold marks per 100 kilos as compared with fifteen to twenty-five

⁶ Commerce Reports, May 11, 1925, p. 318.

marks before the war; the rates on trucks are not quite as high, ranging from 160 to 175 marks. The present rates are not permanent, however, since the act provides for the gradual reduction of automobile duties over a period of three years to thirty, forty and seventy-five marks per 100 kilos, depending on the weight of the car.

Typewriters, calculating machines, phonographs and cash registers have all been subjected to higher rates, in many cases as a measure of protection to new or expanding German industries whose former armament production has been ended. These duties probably will be equivalent to an ad valorem tax ranging from ten to twelve per cent. Many chemicals which were formerly free are now dutiable. It should be noted, however, that the German tariff is frankly a bargaining measure, and in fact a number of treaties already negotiated have made substantial reductions in the general rates of duty.

The figures quoted by the British committee indicate that the German tariff in 1924 was only little more than half as high as it was in 1914, that is, rates except on luxuries had been little changed, while prices had doubled. This figure was based on the old tariff and it seems the class of merchandise considered makes its application to American exports questionable. On the basis of the few observations on the new tariff made above, it is estimated that the present tariff is generally as high or higher than the prewar tariff, and that some particularly important increases in duty have been made on typical American exports, where perhaps the duties on the staple commodities used in the British estimates have not been greatly increased.

France

The war-time restrictions on trade were retained in France until the

middle of 1919. Then, as articles were taken off prohibited or controlled lists, some effort was made to increase the prewar tariff rates. In July, 1919, the coefficient system⁷ was introduced by applying coefficients to over 400 items of the tariff. From this time on changes, both increases and decreases, in coefficients were frequent, but they generally affected less than ten items of the tariff. There were some important exceptions as, for example, a decree in June, 1921, making 1500 changes, and having coefficients as high as ten. In addition to the changes in rates made through coefficients there were frequent changes in tariff rates themselves, but most of these were also of minor importance, affecting but one or two commodities. A complete revision of the chemical and vegetable oils schedules in November, 1919, was the only important exception. Yet the impression has gone abroad that the French are among the worst offenders in tariff increases.

The tariff changes since the war have probably not increased the general height of the French tariff above its prewar level, but there is a manifest tendency toward increased duties on manufactured products and reduced duties on certain raw materials and foods. Estimates of the height of the tariff, based on actual duties collected, follow:

	1913 Per cent	1923 Per cent
Average duty collected on:		
Total imports	8.8	5.6
Total dutiable imports . . .	17.8	14.7
Dutiable foodstuffs	32.4	20.4
Dutiable raw materials . . .	12.4	9.4
Dutiable manufactures . . .	10.2	15.2

⁷ These coefficients are multipliers which applied to existing duties indicate the amount by which they are to be multiplied to determine

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It must be remembered, of course, that such estimates as these may fail entirely as measures of the height of certain rates; for example, mineral oils and their products, a very important American export to France, pay duties ranging from fourteen per cent to sixty-six per cent ad valorem. The high duties on foodstuffs are due to the inclusion of products such as sugar, coffee, chocolate and certain others, on which high revenue duties are collected.

Another important consideration with respect to French rates on American exports is the fact that the French have the multiple tariff system; that is, different rates of duty apply to the same product according to the country of origin. In many cases American imports must pay discriminatory rates of duty and compete with similar products from other countries which enter at lower rates. This has in the past proved a considerable handicap to American exports and the prospective revision of the French tariff is likely to increase the existing discriminatory burdens.

The British estimates mentioned above suggest that the French tariff has fallen generally in the proportion of from $21\frac{1}{2}$ to $12\frac{1}{2}$ per cent. Since the rates of duty are generally specific and the franc has decreased considerably in value since 1922, the French tariff, in spite of the recent increase of thirty per cent applying to all rates, is probably lower now than before the war. But the duties on many manufactured products have frequently been revised upward and since many American products must pay duties higher than the minimum while our competitors receive the minimum, the French tariff is still a considerable burden to imports

from the United States.⁸ Moreover, a comprehensive revision upward of the French tariff has been in process for more than two years and many low rates, which are now practically ineffective both as regards revenue and protection, will undoubtedly be substantially increased. In this revision special attention is being given to "infant industries," those in the territories acquired as a result of the war, and those in the reconstructed areas.

Italy

Immediately prior to the war a commission had been appointed in Italy to study the question of tariff revision and on the basis of this study a new tariff was enacted in 1921. Before this time certain changes had been made in the duties on motor vehicles, tractors and various other commodities and certain conventional rates were withdrawn upon the expiration of commercial treaties. It was estimated by an Italian student that the new tariff increased the rates about eighty-four per cent over the tariff of 1887, which was in effect in modified form before the revision in 1921. The new tariff increased the rates generally with particularly heavy increases in the iron and steel schedules. The rates on automobiles, typewriters, agricultural machinery, and cottonseed oil, primarily American exports, were also considerably increased. One American official has stated that even without the coefficients the duties were high enough to be prohibitive, but imports of these commodities have nevertheless increased.⁹

⁸ It is interesting to note that in the past American exports to France have consisted largely of three products, cotton, copper and mineral oils. On many products which we export to other countries we are unable to compete in France, partly on account of discriminatory tariff rates.

⁹ Except cottonseed oil, as to which total exports from the United States have also decreased.

the new rate. For example, a coefficient of 2.5 on a base rate of 20 would give a rate of 50.

It would seem that the estimate of the British committee that the present tariff is lower than prewar does not hold as regards exports of American products. While Italy has a general and conventional tariff, and by means of commercial treaty bargaining many duties have been reduced, these reductions have in the past applied particularly to commodities of special interest to the countries with whom the negotiations were undertaken. The reductions made so far have not greatly benefited American products.

Belgium

By November, 1919, both import and export prohibitions had been generally abandoned in Belgium except as regards imports from former enemy countries, and even these were relieved of discriminatory restrictions during 1920-21. Prohibitions have therefore been of little importance in the post-war tariff of Belgium.

Instead of proceeding to a tariff revision immediately after the war, Belgium followed the example of France and adopted temporary measures of revision from time to time. Coefficients were applied to a large number of articles during 1920 and in 1921 many of these were increased to the legal limit of six. A considerable number of ad valorem duties applying particularly to luxury products were also introduced. From time to time minor modifications were made both in duties and coefficients, but generally the tariff structure was not disturbed. The provisional measures mentioned above had little effect on the tariff. The average rate of duty was less than four per cent for the year May, 1922, to April, 1923, as compared with 2.3 per cent, the highest average between 1860 and 1913.

The bill for permanent revision of the tariff was introduced into the

Belgian chambers in March, 1923, was passed, and went into effect in December, 1924. Since that time tariff changes have been of minor importance. With the exception of duties on a number of so-called luxury products, including tobacco, petroleum and automobiles, the general level of the new tariff is but little higher than that in effect during 1922 and 1923. Just before the tariff went into effect, protests were made by American interests against the duties on automobiles, typewriters and sewing machines, as especially burdensome to American interests, and subsequently the coefficients on automobiles and parts were reduced.

The British figure for the Belgian tariff probably is indicative of the present general height of the tariff, although as regards American products the rates now in force are higher than before the war. Nevertheless, as compared with many other countries the Belgian tariff is not high, and probably will not be a serious handicap to future American exports.

CONCLUSIONS

In summary it may be said that among the many important factors which have handicapped international trade since 1918 the tariff has not, contrary to general opinion, been as important as inflated currencies, decreased purchasing power, shortage of capital, and the debt and reparations problems. Increases in tariff rates have been exaggerated by attributing undue importance to many partial revisions, by failing to discount the increases made in specific duties expressed in depreciated currencies and applying to products on which prices have increased, and by failing to revise estimates of bargaining rates when those rates have been lowered through the negotiation of commercial treaties.

In Eastern Europe the tariffs, whether old or new, whether higher or not so high as those in Western Europe, have been and are very burdensome to trade because they are applied at new frontiers and are in effect new tariffs. The industries of the countries are not adjusted to them, and in a sense, their whole height must be compared to the last increment in the tariffs of Western Europe.

If the war had not intervened, a general revision of European tariffs and commercial treaties was due in 1917. If it had followed the trend of European tariffs since 1878 it would have been on the whole an upward revision. The various countries would have considered what articles were being imported more freely than they deemed desirable and would have raised the rates applying to such products—keeping in mind also the necessity for a bargaining margin. The disturbance of the war has increased the number and scope of the changes, but it has not altered the rule that countries which pursue general protective policies revise their tariffs periodically to cut down imports of those competitive articles which are entering too freely. Just as the United States in 1922 revised its tariff to protect American manufacturers against lines of goods which were being most successfully exported from Europe, so we must expect that the very expansion of our export trade since the war would prove a cause of the raising of tariffs against our products in Europe.

The general conclusion that present European tariffs are not strikingly higher than prewar does not mean that

they are not burdensome to American exports. The mass production which has been so successful in the United States, and has led to large exports of certain kinds of manufactured goods, has kindled a desire for similar development in many European countries—especially where there are large armament and other war industry plants which must now be turned to commercial uses. This has often led to the imposition of protective duties on typical American exports.

The tariffs of perhaps Great Britain, Belgium and the Netherlands, and some other European countries, which have had and now have low tariffs, are not likely to affect American exports seriously. But other countries—France, Germany, Spain, Italy and others—have substantial rates of duty on manufactured products for which we desire to extend or develop markets; in France many American products are subject to tariff discrimination in favor of Belgium, Italy and Great Britain.

It is particularly important that, in addition to the increases and decreases in European tariffs, the fact be considered that foreign tariffs are of greater significance to American foreign trade now than before the war. American exports no longer are practically limited to surplus raw materials and foods, but to be profitable must include many lines of fully manufactured goods. In these, competition is and will continue to be keen and close; and tariff rates of foreign countries of even moderate height may be controlling factors in the expansion of our foreign trade.

American Export Trade and the Tariff

By JACOB VINER, PH.D.

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IT is a commonplace that in the trade between countries goods and services are in the long run exchanged against goods and services. In the absence of credit transactions, there must be for each country even in the short run a substantial equalization between the value of its exports and the value of its imports. In the long run even credit transactions will not prevent such an equalization. If over a very long period of years there appears a substantial divergence between exports and imports, which cannot be explained as due to incomplete or inaccurate statistical records or to the continuance of an unliquidated credit balance, the explanation must lie in the occurrence of one-sided transactions, as the result of either intent or accident. If the foreigners to whom a country has exported on credit default in their payments; if exported goods are lost at sea after they have been recorded as exports, but prior to legal delivery to a foreigner; if gifts are made to persons in another country in money, or in goods which are recorded as exports in the trade statistics; if tributes, subsidies or reparations are paid to foreign governments; if emigrants to a foreign country take with them money, or goods recorded as exports; these one-sided transactions will operate to create an export surplus which will be permanent, not in the sense that it is an export surplus which will persist after such transactions have ended, but in the sense that it is an export surplus which will not necessarily be offset at a later period by a corresponding import surplus. To those who anxiously scan the trade statistics to discover

whether the balance is "favorable" or "unfavorable," the above reasoning should contain a valuable hint as to the one certain method of assuring a "favorable" balance of trade, *i.e.* an export surplus. By paying tribute or reparations to foreign countries, by having ships carrying exports sink at sea before legal delivery to foreigners is made, by promoting gifts to foreigners abroad, by encouraging exports on credit to such foreign buyers as are most likely to fail to meet their obligations, a government seeking to develop an export surplus will be employing means much more likely to ensure success than those commonly employed for that purpose.

It is, of course, assumed in this analysis that services as well as tangible goods are included in setting up the trade balance. In this connection it is proper to include as an export or import of capital service, as the case may be, the interest charges receivable or payable on capital loans from the one country to the other, just as the use by one country of another country's shipping is to be included as an import of freight services by the former and an export of freight services by the latter, to be measured in each case by the amount of freight charges receivable or payable.

Whether exports are regarded as being made in order to pay for imports, or, on the contrary, imports are regarded as being received as a return payment for exports, in either case imports and exports must in the long run, one-sided transactions such as those described above being disregarded, come to a substantially even balance.

EFFECTS OF A RESTRICTIVE TARIFF

It follows, therefore, that a protective tariff, to the extent that it accomplishes its object of restricting imports, must also have as an indirect effect the restriction of exports to a corresponding degree. It is almost a sufficient demonstration of this, as a long run proposition, to ask the question: If imports are reduced, and exports not, how will payment be received for the surplus of exports? In the short run, of course, the surplus exports can be handled and financed by loans to foreign buyers, but such loans cannot accumulate indefinitely. The balance might for a time be paid for in gold. But this is clearly not a practicable method if the exporting country is on a paper currency basis, and has little use for gold for industrial purposes.

Moreover, there are fairly definite limits to the amounts of gold available for the settlement of international balances, and long before even such limits were reached the flow of gold would result in price changes of a kind to end the export surplus and to terminate the inward movement of gold. As the gold began to flow in, it would accumulate in the banks as "actual" deposits to the credit of importers, and the use of these deposits, through checks, in the purchase of domestic goods and services would operate to force prices upward. The increased stocks of gold, moreover, would afford a basis for an expansion of credit by the banks in the form of "created" deposits, and when such expansion occurred, as it inevitably would in time under these circumstances, the use of these "created" deposits, by those to whose credit they had been established, in the purchase of goods, would result in a further rise in prices. As prices rise within the country, foreign commodities, which would not have undergone a

corresponding rise in price and which might even have experienced an absolute decline in price, will appear relatively cheap. Under the circumstances, exports, being high in price as seen by foreigners, will decrease; imports, being relatively cheap, will increase. The export surplus will disappear, and the inward flow of gold will end. The trade balance will again be reestablished on an even basis. Imports will be smaller in volume than before the enactment of the tariff, but so will exports. The tariff will have cut down exports, in terms of values, in precisely the same absolute amount as it will have cut down imports. Citations, on the principle of *non post hoc, ergo non propter hoc*, of empirical data showing that enactments of new or increased import duties were not followed by declines in exports, as demonstrations that protective tariffs do not operate to restrict exports, are irrelevant to the issue. It is not seriously contended by anyone entitled to a hearing that the adoption anew of a protective tariff, or the increase of existing duties, will inevitably result, whether immediately or in the long run, in a reduction of either imports or exports, regardless of what other happenings may be contemporaneously recurring. All that is here contended, in any case, is that import duties make the volume of imports and exports smaller than they would have been, *under the other prevailing circumstances*, if the duties were not in force. Under certain unusual and improbable conditions of extreme inelasticity in demand for foreign goods or extreme elasticity in supply of export goods, the enactment of a tariff may conceivably *increase* the physical volume of imports and exports. But these qualifications have been developed by those who are responsible for the above type of analysis, and none of them would admit that they are of

practical significance under ordinary conditions.

Restrictions on imports of one kind may, it is true, stimulate increases in imports of another kind. Import duties on woolen goods, for example, may result in an increase in the imports of raw wool, or of cotton goods, or silk goods. But there is no reason for belief that a protective tariff will cause an increase of imports as a whole, or of exports of *any* kind.

The restrictive effect of the tariff on the export trade can be demonstrated from another, though a more superficial, point of view. The ability of foreign countries to buy American goods, credit being disregarded, depends upon their ability to pay for these goods through exports of their own products. The American tariff, by restricting their power to sell goods in the United States, restricts their power to buy American goods, though not necessarily in the same degree for any particular country.

If the above reasoning is valid, it is clear that the American tariff operates to restrict the foreign market for the products of American industries, and that the burden of the American tariff is borne not only by consumers of the protected goods, but also by producers in American industries, who, in the absence of the tariff, could find markets, or could find enlarged markets, abroad.

The full restrictive effect of the tariff on the export trade cannot be obviated through the system of customs drawbacks on dutiable materials imported for further fabrication and reexport. The drawback system is inconvenient and expensive, and only industries engaging in export trade on a large scale can afford to take systematic advantage of its privileges. More important, even when fully used it removes only one of the minor handicaps to the export trade resulting from the

protective tariff. It still leaves in full effect the restriction of the power of foreign countries to buy American products which results from the restriction of their power to sell their products in the United States for ultimate consumption in this country. It does not prevent the tariff from raising the money prices which domestic industries must pay for domestic raw materials and for transportation, nor from raising the money wages (not the *real* wages) which they must pay for American labor. A protective tariff operates to restrict export trade mainly by increasing the money costs of production, and therefore the money prices, of the products of the potentially export industries in the protected market. The most comprehensive system of customs drawbacks is at best a mild palliative, and is far from being a complete remedy for the injurious effect on export trade of the protective tariff.

DIFFICULTIES IN TARIFF BARGAINING

Through the use of the tariff for bargaining purposes, it is theoretically conceivable, of course, that the enactment of import duties, with the proviso that through the negotiation of tariff treaties they may later be removed in return for the repeal or reduction of foreign duties on American products, may operate to increase rather than decrease the volume of exports. But countries making a practice of tariff bargaining often raise the tariff prior to the negotiations in order to have a basis for later reductions, and later fail to make reductions proportionate to the increases made as a preliminary to the negotiations. It is by no means certain that even in Europe prior to the war, where tariff bargaining was most extensively carried on, the net effect of tariff bargaining was to lower, rather than to raise, the average level

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¹ See
Tariff

of tariffs. Past American experience with tariff bargaining has not been such as to warrant any great hopes that it can be effectively used by the United States as a means of promoting American export trade.

The peculiar difficulty of bringing tariff treaty negotiations to a successful conclusion in the United States, resulting from the necessity of obtaining Senate ratification by a two-thirds vote for such tariff treaties, has operated in the past as an almost completely effective obstacle to the successful use of this method by the United States. No tariff treaty has ever received Senate ratification and Congressional approval unless there were powerful political or strategic motives, as well as commercial ones, supporting the negotiations. The punitive surtax provision in the present tariff act¹ intended to secure the removal from foreign commercial legislation of provisions which discriminate against American trade as compared to the trade of other foreign countries, though it has been in effect now for four years, does not appear to have exerted the slightest trace of influence on the course of foreign legislation. Past experience does not warrant any confidence that tariff bargaining, whether by the concessional or by the punitive surtax method, can be employed with any marked effect to enlarge the markets for American export trade.

Loans by the United States to foreign countries can, of course, temporarily counteract the restrictive effects of the American tariff on American export trade, as can also an increase of the foreign demand for American goods resulting from improved economic conditions or growth of population abroad, or an increase in the efficiency

of American production in the export industries. Such factors, however, to the extent that they operate at all, operate in spite of the American tariff policy, and not because of it. They are liable to be only temporary in their results. They do not prevent the tariff from exercising a restrictive effect on exports. All that they do is to give rise to forces which work in a direction counter to that in which the tariff works. They would operate with at least the same degree of force, and with more apparent effects on the volume of exports, if there was no tariff. To repeat, exports do not necessarily decline after the introduction or the increase of import duties, but they are necessarily smaller in volume than they would have been under the other prevailing circumstances, if the tariff changes had not occurred.

INCONSISTENCIES

It must be conceded that the adverse effects of tariff duties on export trade may be temporary only, and that under the shelter of the tariff, and largely because of that shelter, industries may develop to a stage of efficiency sufficient to enable them in time to export abroad on a substantial basis, as well as to control the domestic market. There are, in other words, real possibilities that protective tariffs may stimulate into more rapid development than would have occurred in their absence the productive capacities of a country, and may thus in the long run operate to increase rather than to restrict the volume of exports. The time, however, for the broad application of "educative" or "young industry" tariff protection has long passed in the United States. In any case, whatever may be the alleged reasons for the adoption of the protective tariff policy in any particular instance, once the

¹Section 317 of the Fordney-McCumber Tariff Act.

policy has been adopted it almost invariably operates as a policy of promiscuous protection. Any industry which can organize and maintain an effective lobby, or which is located in a politically strategic section of the country, can in the United States secure more tariff protection than it can make use of. No serious attention has ever been paid by those who draft American tariff legislation to the degree of probability that any industry seeking protection would ever be able to establish itself as a healthy and fully self-supporting part of American industry. It is often said that the American free traders, if there still are any such, are academic dreamers, blind to the practical (that is, political) realities of the situation. But the free trader is in the most intimate contact with the practical realities, as compared to those who imagine that they can find an adequate defense for American tariff policy as it has been in the past, is, and probably will continue to be into the indefinite future, in the possibilities of infant industry protection or in other economically respectable grounds.

In the past the restrictive effect of the American tariff has been felt most keenly by the agricultural industries. By raising the general money cost of living and the money costs of production, the tariff has acted as a depressive influence on the prosperity and growth of American agriculture insofar as its opportunities lay in foreign markets. In the main, American agriculture still undoubtedly loses more than it gains from the protective tariff policy. But the burdens of the tariff are rapidly shifting to the more efficient of the manufacturing industries, and to the shipping and mining industries. The benefits, such as they are, are now being divided in more even proportions between those manufacturing indus-

tries which continue to be ill-adapted to American productive conditions and those branches of agriculture which both receive tariff protection and on their present scale of production cannot fully meet the demands of the American market.

The maintenance of the American tariff will not necessarily operate to prevent a further rise in American exports. The growth of population, increased foreign investments, the economic recovery of Europe, may result in an increase in American exports in spite of the tariff. But the American exports are less now, and will be less as long as the tariff policy is maintained, than they would be under free trade or under a lower tariff. No American industry is as well-equipped to develop foreign markets as it would be in the absence of the tariff. There are many non-exporting American industries which could profitably export were it not for the adverse influence which the tariff has on their money costs of production. The fundamental tariff principle is that the tariff-maintained industry is an anemic industry kept alive by blood-transfusions from the healthy industries, and that these blood-transfusions weaken the latter.

The restrictive effect on exports, however, is not one of the major sins of the protective policy. There is no special virtue in exports, which is not possessed in at least equal degree by imports. The widespread obsession with the superior importance of exports rests on almost wholly fallacious grounds. The function of exports is to pay for imports, and in performing that function exports exhaust all their capacity for national service. Of themselves, exports are a loss, a drain on the country's economic resources. It is in what is paid for them, namely, in the imports, that they find their only economic justification from the national

point of view. Special concern with the status of export trade has a sound basis only insofar as a flourishing export trade means a flourishing import trade. There is economic warrant for official and non-official efforts to promote export trade only because an increase in the foreign demand for American goods results in a decrease in the amount of American goods which has to be exported in return for each physical unit of import goods. Promotion of foreign demand for American goods, if it were accompanied by a rigid restriction of the physical volume of foreign goods which could be imported, would operate to reduce rather than to increase the physical volume of exports.

It should be a bitter dose of medicine for our mercantilistically-minded officials and business men, that their energetic, efficient and praiseworthy efforts to promote American export trade tend to increase the physical volume of imports in greater ratio than the physical volume of exports. The essential inconsistency between a tariff policy, which places every possible barrier in the way of the free flow of imports, and a policy of energetic promotion of export trade should be obvious to even the man on the street. But the restrictive effect on export trade of the American tariff policy is but a minor element in the case for or against that policy.

United States Government Aid to Foreign Trade

By HARRY T. COLLINGS, PH.D., SC.D.

Professor of Economics, University of Pennsylvania; formerly U. S. Trade Commissioner to Belgium

THE United States has not been a great foreign trading nation during the past century for two reasons: first, because we did not need extensive foreign commerce to advance our economic welfare; and second, because we did not have sources of information which would enable us to carry on foreign commerce to the best advantage. Our status in this respect, however, has now changed.

The United States has now arrived at a stage in its industrial development where all national energy and capital are not absorbed in the solution of domestic problems. We can now produce fifteen per cent in excess of our need for home consumption. We have therefore an urgent need for markets abroad—the great incentive to foreign commerce. Our sources of commercial information as now organized are inferior to none. There is available to American business accurate and timely information on every important world market. Among the agencies affording this information the offices and bureaus of the United States Government stand foremost. It is the purpose of this paper to describe this government information service.

FUNCTION OF GOVERNMENT INFORMATION SERVICE

Success in foreign trade is based on a full knowledge of the needs and conditions in the foreign market. No individual firm or group of firms is in a position to obtain complete information for its own purposes. Even if such a thing were possible, conditions abroad change so rapidly and often in opposition to the trend of business

developments in the United States, that it would require the constant presence of an investigator abroad to keep information accurate and timely. The maintenance of such an expert in the foreign field would be impracticable for any save the largest business organizations, and even for such enterprises the securing of information on foreign conditions would be too costly an undertaking. It is the business of the United States Government, therefore, to provide American exporters and importers with information on general changes in market conditions abroad, on price movements, foreign production and costs, import and export statistics, changes in tariff policies, changing factors in competition, currency movements, patent and trademark legislation, regulations governing commercial travelers, specifications for packing and labeling, embargoes, sales and stamp taxes, and on a thousand other similar and vital changes in foreign market conditions. This is the function of the information service of the United States Government in foreign trade.

This foreign service of the government is by no means limited to giving information regarding conditions—it plays a larger and more important rôle. The data supplied to businessmen in the United States regarding foreign markets are supplied by government representatives abroad who reside in certain territory in which they are stationed, but the duty of these representatives is by no means solely to supply their bureau in Washington with reports on conditions at their station. The course of foreign trade, like

that of domestic trade, does not always run smoothly. Difficulties arise—indeed they multiply directly as the square of the distance. The adjustment of these difficulties offers a large field for government service to importers and exporters. The representative of the United States knows well the field in which he is located; he understands the customs and practices of this country and he can advise in a more intelligent way than one whose experience is limited to domestic trade. When your customer abroad has acted in a way that is perplexing to you, the government representative in that foreign field may easily make clear to you that the conduct of the foreign buyer is quite in accordance with the business practices of the country concerned. The foreign representative of your government in Tokio, Buenos Aires or Vienna may show you convincingly the utter futility of suing to recover a just debt. The practices of the particular country may be such that in an individual case the cost of recovery might exceed the total debt.

Widespread belief exists that our diplomatic and consular representatives are our only official links with foreign lands. As a matter of fact we have other representatives abroad who look after our economic welfare as the diplomats look after our political welfare. These representatives are sponsored either by the Department of Commerce or the Department of State. We may now turn to a consideration of their service to commercial interests.

WORK OF THE BUREAU

The foreign information service of the Bureau of Foreign and Domestic Commerce has been in existence since July, 1905, when Congress appropriated thirty thousand dollars as compensation and necessary traveling expenses

of "Special Agents to Investigate Trade Conditions Abroad with the Object of Promoting the Foreign Commerce of the United States." From this small beginning appropriations and the resulting service have grown until in 1926 three million dollars is being spent for this purpose. During the first nine years of this Foreign Information Service (1905-14) commercial investigation abroad was carried on by traveling agents. A month before the outbreak of the World War, however, commercial attachés were stationed at certain points abroad, for whose expenses one hundred thousand dollars was appropriated by Congress. Ten attachés were appointed under this authorization and stationed in London, Berlin, Paris, Buenos Aires, Peking, St. Petersburg, Rio de Janeiro, Lima, Santiago and Melbourne. Soon after, additional service officers known as Trade Commissioners were appointed for similar work abroad; they were assigned to make a commercial survey of an entire country, or to report on a specific industry, rather than to remain at the capital as did the commercial attaché. From this small beginning the list of commercial attachés, trade commissioners, and assistant trade commissioners has increased until such information officers for foreign trade are now located at the following points:

BUREAU OF FOREIGN AND DOMESTIC COMMERCE FOREIGN OFFICES AND REPRESENTATIVES IN CHARGE

Cable addresses of foreign representatives of the Department of Commerce "Amcomat" in every case except Berlin, which is "Amcomatach," and Calcutta, which is "Amcomatch." Use Western Union five-letter code when cabling to foreign offices of the Department of Commerce.

Alexandria, Egypt: William D. Mann, assistant trade commissioner.

Athens, Greece: Gardner Richardson, commercial attaché.

Barcelona, Spain: James G. Burke, trade commissioner.

Batavia, Java: Charles P. Goodhue, assistant trade commissioner.

Berlin, Germany: Fayette W. Allport, commercial attaché.

Bogota, Colombia: William Boaz, commercial attaché.

Bombay, India: Edward J. Sabine, assistant trade commissioner.

Brussels, Belgium: Edward V. D. Wight, acting commercial attaché.

Bucharest, Rumania: Sproull Fouché, acting commercial attaché.

Buenos Aires, Argentina: H. B. MacKenzie, acting commercial attaché.

Calcutta, India: Charles B. Spofford, trade commissioner.

Constantinople, Turkey: Julian Gillespie, trade commissioner.

Copenhagen, Denmark: Harry Sorensen, commercial attaché.

Havana, Cuba: Frederick Todd, commercial attaché.

The Hague, Netherlands: Edward V. D. Wight, acting commercial attaché.

Hamburg, Germany: E. C. Squire, trade commissioner.

Helsingfors, Finland: Emil A. Kekich, assistant trade commissioner.

Johannesburg, South Africa: Perry J. Stevenson, trade commissioner.

Lima, Peru: Lawrence W. James, commercial attaché.

London, England: William L. Cooper, commercial attaché.

Madrid, Spain: Chas. H. Cunningham, commercial attaché.

Manila, P. I.: Ollie M. Butler, trade commissioner.

Melbourne, Australia: Julian B. Foster, assistant trade commissioner.

Mexico City, Mexico: George Wythe, acting commercial attaché.

Montevideo, Uruguay: Lew B. Clark, commercial attaché.

Montreal, Canada: Walter J. Donnelly, assistant trade commissioner.

Ottawa, Canada: Lynn W. Meekins, trade commissioner.

Paris, France: Chester Lloyd Jones, commercial attaché.

Peking, China: Julean Arnold, commercial attaché.

Prague, Czechoslovakia: James F. Hodgson, commercial attaché.

Riga, Latvia: Carl J. Mayer, commercial attaché.

Rio de Janeiro, Brazil: A. O. Pierrot, acting commercial attaché.

Rome, Italy: Henry C. MacLean, commercial attaché.

San Juan, P. R.: H. P. Macgowan, trade commissioner.

Santiago, Chile: Ralph H. Ackerman, commercial attaché.

Sao Paulo, Brazil: W. E. Embry, trade commissioner.

Shanghai, China: George C. Howard, trade commissioner.

Stockholm, Sweden: T. O. Klath, commercial attaché.

Sydney, Australia: Elwood G. Babbitt, trade commissioner.

Tokio, Japan: Charles E. Herring, commercial attaché.

Vienna, Austria: H. Lawrence Groves, commercial attaché.

Warsaw, Poland: Ronald H. Allen, acting commercial attaché.

SMOOTHING OUT THE ROUGH PLACES

The commercial attaché is appointed by the Secretary of Commerce, and accredited by the Department of State. He is a commercial expert with diplomatic standing in the country where stationed. Located at the capital, his function is to investigate and report on industrial, financial and commercial matters of concern to American business men. Although this is his primary function, he spends no small amount of time creating "good will for American goods" and smoothing over misunderstandings. His greatest service lies in this latter field—as "Ambassador of Trade"—rather than as a commercial promoter.

That trying situations arise in international commerce is inevitable. The commercial attaché as the advocate of American business can acquaint himself with the details of each particular case and represent personally the American exporter who may be thousands of miles away. For example, after the Armistice the American commercial attaché at Paris went into the occupied territory of Germany and obtained the release of goods purchased by American importers, when

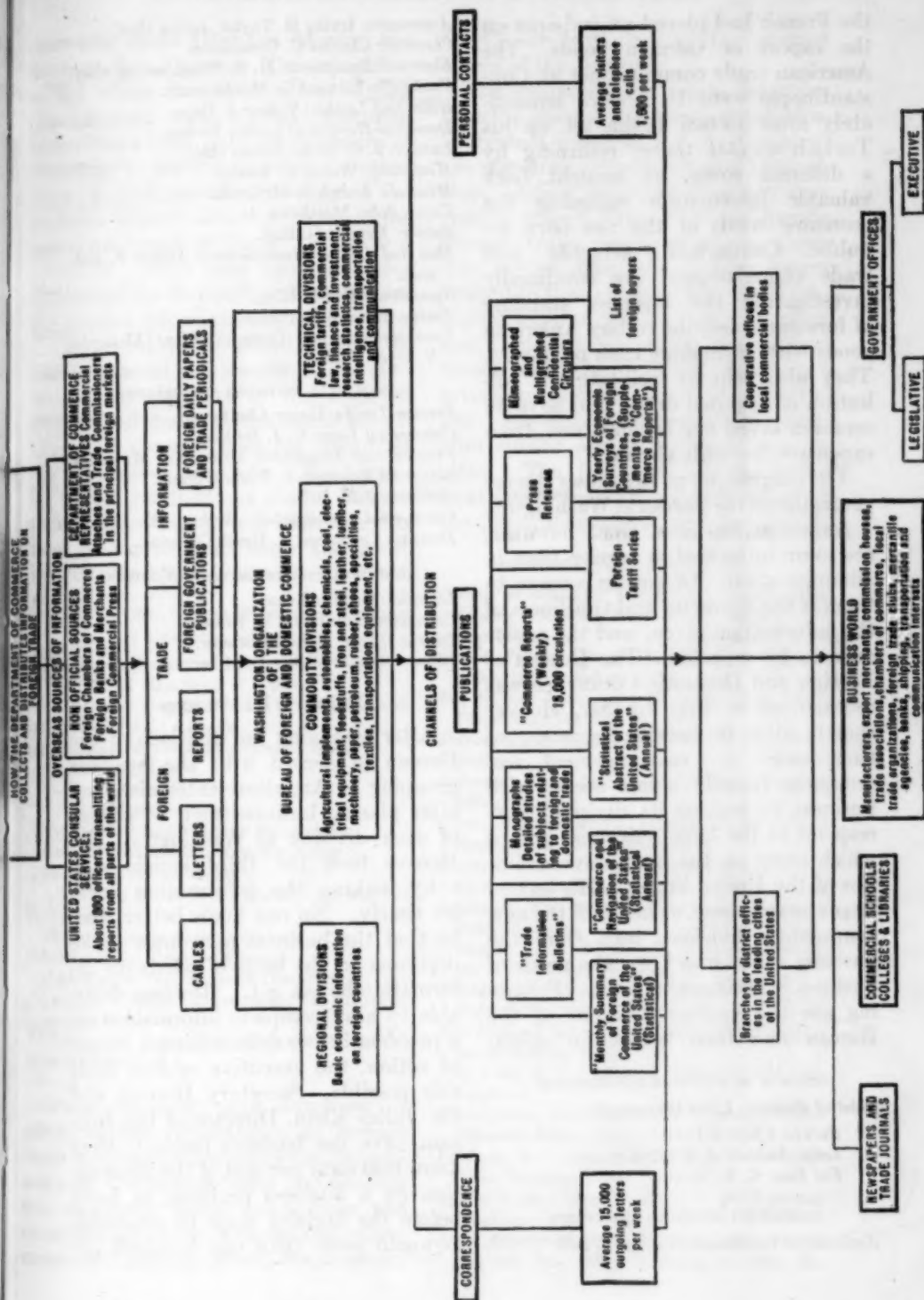
HOW THE DEPARTMENT OF COMMERCE COLLECTS AND DISSEMINATES INFORMATION ON FOREIGN TRADE

OVERSEAS SOURCES OF INFORMATION

DEPARTMENT OF COMMERCE

UNITED STATES CONSULS

NON OFFICIAL SOURCES



From Commerce Reports, June 11, 1929.

the French had placed an embargo on the export of German goods. The American trade commissioner at Constantinople went to Angora immediately after Kemal Pasha set up his Turkish capital there; returning by a different route, he brought back valuable information regarding the economic needs of the new-born republic. Commercial attachés and trade commissioners are continually investigating the business standing of foreigners desiring to buy American goods without making cash payments. They also help to facilitate the collection of disputed debts, and have on occasion saved our business men from expensive law suits abroad.

The diagram on p. 197 shows the organization of the Bureau at Washington.

American business men, however, are more interested in service than in administration. Of greater concern to them is the character and timeliness of the information given, and the assistance to be expected. The Bureau of Foreign and Domestic Commerce was reorganized in 1921 by Mr. Hoover shortly after he became Secretary of Commerce. A rearrangement of groupings brought it into accord with business by making its divisions correspond to the large industrial groups which carry on the productive activities of the United States. His second step was to choose, as heads of the new commodity divisions, men from the business world who knew the needs of business in their special lines. Following are the various divisions of the Bureau and their respective chiefs:

DIVISION OF REGIONAL INFORMATION

Chief of division: Louis Domeratzky.

Europe: Clayton Lane.

Latin America: J. R. McKey.

Far East: C. K. Moser.

COMMODITY DIVISIONS AND CHIEFS

Agricultural Implements: George B. Bell.

Automotive: Irving H. Taylor, acting chief.

Chemical: Charles C. Concannon.

Electrical Equipment: D. S. Wegg, acting chief.

Foodstuffs: Edward G. Montgomery.

Hides and Leather: Wilbur J. Page.

Iron-Steel-Hardware: Luther Becker.

Lumber: J. C. Nellis, acting chief.

Machinery: Walter H. Rastall.

Minerals: Joseph S. McGrath.

Paper: John Matthews, Jr.

Rubber: Everett G. Holt.

Shoe and Leather Manufactures: Arthur B. Butman.

Specialties: Eric T. King.

Textile: Edward T. Pickard.

Transportation and Communication: Alexander V. Dye.

TECHNICAL DIVISIONS AND CHIEFS

Foreign Tariffs: Henry Chalmers.

Commercial Laws: C. J. Junkin.

Finance and Investment: Grosvenor M. Jones.

Statistical Research: E. Dana Durand.

Statistics: John Hohn.

Commercial Intelligence: Arthur S. Hillyer.

Domestic Commerce: A. Heath Onthank.

ADMINISTRATIVE DIVISIONS AND CHIEFS

Editorial: Griffith Evans.

Correspondence: Royal H. Brasel.

District Offices: Harold Dotterer.

Foreign Service: Walter L. Miller.

SERVICE RENDERED

After arranging the divisions of the Bureau in accord with the business grouping of American enterprise, and after placing business men in charge of each division at Washington, Mr. Hoover took the third logical step—by making the information service timely. No one knew better than he that the business man must make decisions on the basis of whatever information he can get. However desirable to have complete information on a problem before determining a course of action, the executive seldom finds this possible. Secretary Hoover and Dr. Julius Klein, Director of the Bureau, have the business instinct; they know that sixty per cent of the information on a business problem, in hand before the decision must be rendered, is worth more than one hundred per

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cent two weeks after the decision has been made. Director Klein therefore cables where former directors wrote. The Bureau now affords American executives a brief, accurate summary of yesterday's trade conditions, rather than a voluminous description of business opportunities of two months ago. An ounce of "now" is worth a pound of "some time ago," and this epitomizes the Bureau's attitude toward the present information system.

The actual service afforded is of two kinds—general and specific. The general service appears in the form of reports and bulletins on trade conditions and opportunities for American exports in world markets. The following recent publications of the Bureau (a few out of many) will illustrate this type of service and show the great variety of subjects covered:

RECENT REPORTS BY THE BUREAU OF FOREIGN AND DOMESTIC COMMERCE

Packing for Export
Commercial Handbook of China
Commercial Travelers' Guide to Latin America
Stowage of Ship Cargoes
Caribbean Markets for American Goods
Railways of Mexico
Paper Work in Export Trade
Selling in Foreign Markets
Canned Foods in Western Hemisphere
Rubber Production in Amazon Valley
Peruvian Public Finance
Advertising Methods in Japan, China, and the Philippines
Motor Roads in Latin America
International Trade in Cement
Merchandise Warehouse in Distribution
Foreign Capital Investments in Russian Industries and Commerce
Glossary of Automotive Terms and Instructions to Exporters

These bulletins, and hundreds of other similar publications on foreign trade subjects published by the Department of Commerce, may be obtained for relatively small sums from the Superintendent of Documents, Government Printing Office, Washington,

D. C., or from any of the district offices of the Bureau.

The specific service is more extensive than the general, and far more valuable. Individual inquiries by the thousand are answered each month and through these replies American business men receive expert advice on the specific foreign trade problem before them. The service afforded is by no means limited to that coming from the Washington office of the Bureau of Foreign and Domestic Commerce. Scattered throughout the United States are seventeen district offices, and thirty-five co-operative offices, all of which offer similar service to their communities. The following list gives the location of these offices, together with the present managers and secretaries:

DISTRICT OFFICES AND MANAGERS

Central Mississippi: Thomas L. Gaukel, 1201 Liberty Central Trust Co. Building, St. Louis, Mo.
Central Pacific: Leonard B. Gary, 310 Customhouse, San Francisco, Calif.
Des Moines, Iowa: Brice M. Mace, U. S. Court House Building.
Detroit, Mich.: H. H. Tewksbury, 607 Free Press Building.
Galveston, Tex.: Walter N. Pearce, 309 Post Office Building.
Great Lakes: Frederic L. Roberts, Room 845, 33 South Clark Street, Chicago, Ill.
Houston, Tex.: Ernest L. Tutt, Chamber of Commerce Building.
Louisville, Ky.: Prentiss M. Terry, Board of Trade Building.
Memphis, Tenn.: William B. Henderson, Chamber of Commerce Building.
Minneapolis, Minn.: Ernest M. Zevickel, Federal Building.
New England: Harvey A. Sweetser, 1801 Customhouse, Boston, Mass.
New York, N. Y.: Albert J. Barnaud, 734 Customhouse.
Philadelphia, Pa.: Samuel H. Day, 20 South Fifteenth Street, Room 812.
Portland, Ore.: James E. Peebles, 215 New Post Office Building.
Seattle, Wash.: Shirl H. Blalock, 515 Lowman Building.
South Atlantic: Harry O. Mitchell, acting manager, 538 Post Office Building, Atlanta, Ga.

Gulf: John S. Goff, acting manager, 322 Post Office Building, New Orleans, La.

CO-OPERATIVE OFFICES AND FOREIGN TRADE
SECRETARIES

Akron, Ohio: W. W. Hall, Chamber of Commerce.

Baltimore, Md.: George H. Pouder, Export and Import Bureau, Association of Commerce.

Birmingham, Ala.: J. D. Ingram, Chamber of Commerce.

Bridgeport, Conn.: Alpheus Winter, Manufacturers' Association.

Charleston, S. C.: Henry F. Church, Chamber of Commerce.

Chattanooga, Tenn.: E. D. Stratton, 1301 Market Street.

Cincinnati, Ohio: Malcolm M. Stewart, Chamber of Commerce.

Cleveland, Ohio: M. E. Woods, Chamber of Commerce.

Columbus, Ohio: Avery G. Clinger, Chamber of Commerce.

Dallas, Tex.: M. L. Bohan, Chamber of Commerce.

Dayton, Ohio: Sam C. Davis, Chamber of Commerce.

El Paso, Tex.: D. A. Bandeen, Chamber of Commerce.

Erie, Pa.: J. K. Shields, Chamber of Commerce.

Fort Worth, Tex.: Drexel G. Foreman, Chamber of Commerce.

Indianapolis, Ind.: C. G. Dumphy, Chamber of Commerce.

Jacksonville, Fla.: Walter Gardner, Chamber of Commerce.

Los Angeles, Calif.: Clarence H. Matson, Chamber of Commerce.

Lowell, Mass.: George F. Wall, Chamber of Commerce.

Milwaukee, Wis.: H. W. Gehrke, Association of Commerce.

Mobile, Ala.: Myron T. Sprague, Chamber of Commerce.

Muncie, Ind.: Jacob Jones, Chamber of Commerce.

Newark, N. J.: C. J. Fagg, Chamber of Commerce.

Norfolk and Newport News, Va.: H. M. Thompson, Hampton Roads Maritime Exchange.

Orange, Tex.: Louis M. Shepardson, Chamber of Commerce.

Pensacola, Fla.: J. B. Morrow, Chamber of Commerce.

Pittsburgh, Pa.: Albert J. Stowe, Chamber of Commerce.

Providence, R. I.: Edward C. Southwick, Chamber of Commerce.

Richmond, Va.: W. T. Dabney, Chamber of Commerce.

Rochester, N. Y.: S. R. Peabody, Chamber of Commerce.

San Diego, Calif.: H. R. Jackson, Chamber of Commerce.

Syracuse, N. Y.: F. M. Varah, Chamber of Commerce.

Tacoma, Wash.: T. A. Penhale, Chamber of Commerce.

Toledo, Ohio: Leonard J. Gans, Chamber of Commerce.

Trenton, N. J.: George E. Mace, Chamber of Commerce.

Worcester, Mass.: Joseph H. Lane, Chamber of Commerce.

The table on following page shows the number of commercial services rendered by the Bureau of Foreign and Domestic Commerce in Washington and its eleven district offices in the United States during the fiscal years 1922 to 1926.

SERVICE OF THE STATE DEPARTMENT

Valuable assistance from the government is afforded also by the Department of State. Officers of this department protect American commercial interests through diplomatic channels. They serve in preventing discrimination against American goods. They promote our national welfare in treaties, international law and friendly relations; while foreign representatives of the Department of Commerce are direct promoters of trade—they find new markets and stir up stagnant ones. The co-operation of the diplomatic with the commercial renders the service most effective.

In Washington the State Department has at its service a corps of economic advisers. Such an adviser is not concerned primarily with trade promotion but rather with the economic relations of such international questions as come within the jurisdiction of the Department of State. He is adviser rather than promoter. He looks at policies rather than practice. He unifies and co-ordinates matters within the

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Items	Fiscal year ended June 30—				
	1922	1923	1924	1925	1926
Foreign Trade Opportunities:					
Number of individual opportunities published.....	2,960	4,290	3,846	4,909	5,380
Number of cases in which reserved information was furnished.....	127,385	332,127	345,784	446,865	437,059
Trade lists (lists of foreign merchants) number of copies.....	71,900	181,049	417,195	687,159	578,524
Special informational circulars (mimeographed) number of copies.....	350,000	1,000,000	3,100,000	3,713,800	3,327,120
Visitors to district offices, number.....	51,497	63,561	67,401	61,996	.....
Pages of printed material issued.....	11,328	10,685	14,036	14,239	15,000
Commercial services rendered:					
Total services rendered.....	1,505,661	1,881,521	1,168,972	1,204,125	1,203,825
Commodity—					
Agricultural implements.....	6,210	14,014	28,353	47,841	29,753
Automotive.....	17,674	56,232	105,459	181,606	228,727
Chemical.....	.....	36,984	66,601	105,477	119,613
Coal.....	10,877	5,356	6,711	8,744	4,199
Electrical.....	7,822	32,636	64,355	112,245	133,462
Foodstuffs.....	28,565	103,373	143,579	142,306	155,301
Iron and steel.....	7,456	27,918	52,288	112,559	221,252
Leather.....	2,923	12,881	23,471	29,108	16,858
Lumber.....	10,844	26,177	37,826	70,483	91,393
Machinery.....	11,178	46,399	71,999	99,038	117,200
Minerals.....	(¹)	18,566	21,371	45,049	23,973
Paper.....	2,829	13,668	16,923	17,518	11,785
Rubber.....	4,114	14,407	19,894	21,208	14,260
Shoes.....	3,803	10,211	11,892	10,388	7,148
Specialties.....	15,948	75,023	97,860	230,223	185,667
Textiles.....	18,603	64,429	80,669	106,195	106,590
Technical—					
Commercial law.....	3,998	10,376	14,727	14,543	16,318
Finance and investment.....	.....	7,600	13,726	15,546	20,578
Statistics (foreign trade).....	10,996	23,530	28,711	29,871	50,749
Transportation.....	5,244	15,193	20,940	28,620	25,806
Tariffs (foreign).....	16,300	19,764	25,730	27,062	30,031
Miscellaneous.....	320,377	246,724	215,887	585,620	422,162
Regional and reclassification of above—					
Latin America.....	20,619	132,486	232,200	329,737	288,649
Near East.....	5,905	29,287	49,917	52,464	42,718
Far East.....	15,399	93,224	173,763	253,875	246,990
Eastern Europe.....	4,837	29,812	55,617	53,295	40,390
Western Europe.....	32,378	269,244	339,679	745,318	831,043
Domestic commerce.....	.....	.....	19,148	51,370	65,559

¹ Does not include services rendered by the foreign service of the bureau and by the co-operative offices maintained by the bureau in 32 chambers of commerce and boards of trade in the United States.

² Coal and petroleum.

³ Shown under "Coal."

⁴ Petroleum only.

Department. Much of his time is given to questions of foreign investment, commercial treaties, tariff policies—questions which concern the country rather than any particular trader. Though he is not directly available for specific inquiry, the results of his investigations serve the interests of American business abroad. Through co-operation the material thus assembled is available for publications of the Department of Commerce. Thus reports of consuls scattered throughout the world reach the public—202 American consuls, in Europe,

eighty-five in Asia, sixty-three in North America, thirty-three in South America, twenty-three in the West Indies, eleven in Central America, twenty-three in Africa and seventeen in Australasia.

DATA ON FILE—PERSONAL CONFERENCES

To afford information by reports is only one of many services of the government. In Washington and in all the district offices of the Bureau of Foreign and Domestic Commerce there are on file, trade opportunities abroad, sales-

information reports on foreign importers, trade directories, samples and exhibits of foreign merchandise. Personal conferences are arranged between American exporters and commercial attachés, trade commissioners or consuls who have returned from their foreign posts. Interviews with such men practically bring the foreign market to the American exporter's home town.

Our system of government aid to foreign trade is recognized to-day as

inferior to none. Under our former haphazard scheme commercial information trickled into Washington from every quarter—unsystematized, undigested and untimely. To-day a force of experts covers every important market of the world. Their reports are thoroughly systematized, digested and timely. To-day American business can follow the foreign market as readily and satisfactorily as it does the domestic one.

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What Other Governments Are Doing in Regard to Trade Information Service

By ELGIN E. GROSECLOSE

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THE service which a government performs in the promotion of the foreign trade of its citizens begins in the work of its executive department in creating the foundation of commercial intercourse—the negotiation of commercial treaties. It is continued in the legislative branch, where ratification of these treaties is effected and where resides the authority for assisting foreign trade by means of subsidies, export credits acts and numerous other types of legislative enactments designed to this end. The scene then shifts back to the executive branch where, under its foreign office or department of state, the consular corps carries on, along with its multitude of other duties, the task of forwarding reports of a commercial interest.

In recent years, under the pressure of post-war economic conditions, various governments have begun to treat in a more intensive way the problem of providing accurate commercial information for their citizens. For this purpose various methods have been used, the principal one being the organization of special corps of experts, known as commercial attachés, commercial counsellors, commercial secretaries, trade commissioners, etc., stationed abroad at strategic points. The commercial attaché service is mainly a post-war development. The extent to which this type of service has grown in recent years is indicated by the fact that to-day thirty-eight governments, besides our own, maintain commercial envoys in something like 246 foreign posts.

Space will not permit more than a sketch of the information services which have been built up by various foreign governments since the war and we must confine ourselves to a description of only the more important ones and a discussion of their salient characteristics.

EXTENSIVE WORK OF GREAT BRITAIN

The story properly begins with Great Britain, which was the first to develop an extensive foreign information service, through the agency of the Department of Overseas Trade, which is the central source of foreign trade information obtained by the British business man through governmental channels. Its commercial secretaries (attachés) visit him at frequent intervals, sharing with him the personal and intimate information they have gleaned from their residence at foreign posts; its weekly *Board of Trade Journal* provides him with news of outstanding commercial developments abroad; and if he is on the special register list, he receives confidential mimeographed items on particular developments of interest. Should he be an importer, he may visit the fairs and sample rooms which the Department of Overseas Trade maintains in the principal cities for the display of colonial and foreign wares; or, if he is an exporter, he may either send his own samples through the Department to be exhibited in the offices of the commercial secretaries and trade commissioners abroad, or secure from it lists of agents and prospective buyers.

The Department of Overseas Trade, which plays so important a part in providing commercial intelligence to the overseas trader, has developed in a rather interesting manner. Until 1917 British governmental activities for the promotion of its foreign trade had been conducted through two departments of the government—the Board of Trade and the Foreign Office. The Board of Trade included several more or less unrelated departments having to do not only with commercial intelligence and commercial statistics but also with marine matters, mines and patents; while the Foreign Office had a commercial department which collected commercial data from diplomatic and consular offices abroad. This information was primarily for its own needs, but some of it was handed over to the Board of Trade for dissemination through the Department of Commercial Intelligence—a bureau which had been in existence since 1899.

The first move for a reorganization of its agencies for foreign trade promotion was made in 1916, when the Secretary of State for Foreign Affairs and the President of the Board of Trade reached an agreement for the organization of a commercial intelligence service with a corps of trade commissioners and commercial secretaries under the joint control of the two ministries. The fall of the Asquith Ministry, however, delayed the execution of this plan, and under the Lloyd George régime a new committee was appointed to "report on the best form of organization for promoting foreign trade." This committee, however, could not agree as to whether the proposed new organization should be under the control of the Foreign Office or under the Board of Trade; and the outcome was compromise—the creation of the Department of Overseas Trade.

The problem confronting the British

was that which every nation with overseas trade interests inevitably faces:—the necessity of choosing sooner or later between the policy of making foreign trade promotion a purely commercial function entirely divorced from the political activities of the government, and the policy of placing the collection of overseas trade information entirely in the hands of the Foreign Office, so that the control of all foreign activities of the government might be centralized.

A commercial intelligence staff which confines its work to gathering trade information, and assisting in promoting its country's commercial interests, enjoys certain advantages in its work which one directly connected with the political activities of its government does not. Its work is regarded with less suspicion, its outlook coincides more closely with the commercial interests it serves, and it is less restricted by purely political considerations. On the other hand, commercial representatives, formally an integral part of the diplomatic service, generally enjoy a greater prestige and have access to sources of information from which the former are excluded; while their efforts toward promoting trade carry a degree of political influence which may be of considerable value in certain parts of the world.

Some European governments have made the commercial attaché a distinctly political officer. This is true of Denmark, the Netherlands, and Belgium. In France, Italy and Japan, on the other hand, these officials operate under the ministries of industry and commerce. The British compromise, somewhat unique, provides for a sort of coalition between the diplomatic and commercial departments of the government. The Department of Overseas Trade is underslung, so to speak, from the two parent organizations.

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Under the joint control of the Board of Trade and the Foreign Office, it is equally responsible to both, drawing its interpretation of commercial policies from the one, and of foreign policies from the other.

Extending fanlike from the home base are the foreign representatives of the Department of Overseas Trade who, within the Empire, are known as trade commissioners and imperial trade correspondents, and in foreign countries as commercial counsellors and commercial secretaries attached to the various diplomatic missions. Divided into nine classes, the service ranges from the commercial counsellor, who enjoys a rank above that of even the diplomatic secretaries, down to the imperial trade correspondents who are private citizens receiving a nominal salary for forwarding reports to the Department.

To coördinate the various official intelligence services, the commercial counsellor or secretary exercises complete supervision over the commercial work of the consular service in his district. As their superior officer he may not only request reports directly from the consuls but he may coördinate their activities and assign them duties. Being members of the same corps, men are frequently transferred from the consular service to the commercial secretary and trade commissioner service and vice versa.

Illustrative of the manner in which the commercial and consular services co-operate is the organization of the British Government's commercial intelligence work in China. Here the principal commercial representative of the Department of Overseas Trade is the commercial counsellor, whose rank, as has been indicated, is that above the first secretary of the legation, and whose salary is higher than any member of the consular service in China.

Under him are two commercial secretaries, ranking with second secretaries of the legations. He frequently requests reports and information from the consular service, and copies of all commercial reports made by the consuls must be sent to his office. All trade inquiries received by the consuls are forwarded to him for reply. The consuls are obliged to prepare for him each quarter "intelligence reports" covering trade developments and conditions in their respective districts; while the consuls-generals forward to him their annual reports, from which he prepares his annual general survey of the country.

The distinction between the American and British service may here be pointed out. The American commercial attaché is primarily a reporting officer and exercises no jurisdiction over the consular corps, although under the Executive Order of April 4, 1924, he may communicate directly with the consuls in his area and request their co-operation. The Bureau of Foreign and Domestic Commerce being, of course, entirely independent of the State Department and not, as is the Department of Overseas Trade, an appendage of the Foreign Office, has no direct supervision over the consular corps. The success of either plan—British or American—depends entirely upon the general spirit of co-operation which prevails, and in neither case can it be said that there has been any serious lack of coördination.

The British system of distributing foreign trade information is very comprehensive. The D. O. T. is organized by commodity, technical and geographic divisions, and is staffed by experts drawn from the industries themselves. It recalls its overseas representatives at frequent intervals for the purpose of touring the manufacturing and trading districts, in

order to give personal advice and counsel upon matters with which their services have made them familiar. In addition to this close personal contact, information is disseminated by means of press releases, the weekly *Board of Trade Journal*, and by a special register service for confidential information. No district office service has been organized as in this country, since the size of the British Isles has made this unnecessary; but local chambers of commerce are closely affiliated with the government's organization. The Department of Overseas Trade maintains the most cordial relationships with representative commercial bodies in the United Kingdom—such as the Association of British Chambers of Commerce, the Federation of British Industries, individual chambers of commerce, and the many trade associations in specific industries—and frequently sends out special missions to investigate markets for particular commodities in which they may be interested.

One of the most interesting of the British services is the organization of the British Industries Fair, for which approximately £70,000 is appropriated annually. Under the present system a fair is held in three cities concurrently—London, Birmingham and Glasgow—the London Fair being directly operated by the Department of Overseas Trade, the other two being under its auspices, but managed by local chambers of commerce in those cities. The British Industries Fair is not a mere exhibition, but rather a trade fair to which bona fide buyers can resort for the purpose of inspecting goods. An important division of this work is the Foreign Samples and Catalogue Section, which has gathered extensive information regarding foreign products in which the British buyers are interested, and which maintains in various parts of the

United Kingdom permanent exhibits of samples and catalogues of foreign goods. The London Fair is held in the Crystal Palace, which is the largest exhibition building in the world; but applications for space are usually in excess of that available.

The high scale of salaries prevailing in the British service, in comparison to salaries paid to American officers of like rank, is indicative of the importance with which this service is regarded in Great Britain. Including post and representation allowance, which are usually one of the prerequisites granted by European governments to their foreign services, the salaries for the British overseas trade promotion officers range upward from £1,346 (\$6542) and £1,678 (\$8155) for Grade II trade commissioners to £2,471 (\$12,009) and £3,570 (\$17,350) for commercial counsellors.

In addition to the commercial attaché service of the British Government, which is charged with the duty of assisting not only the trade of the mother country but of the Dominions as well, the Dominions themselves have built up commercial intelligence services of their own. Canada is foremost with twenty-four offices abroad, eleven of which are within the confines of the Empire; while Australia maintains trade commissioners in six different countries, and the Union of South Africa has at present four representatives in markets in which it is interested.

FRENCH INFORMATIVE SOURCES

The French business man has sources of information and assistance to draw upon which are as varied as those to be found in this country or in Great Britain. His government, in its anxiety to assure him every aid, not only provides him with an extensive commercial attaché and consular service

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and a series of "commercial offices" abroad, but in addition subsidizes French chambers of commerce in certain foreign countries. Fairs are organized for his benefit; the commercial attachés are frequently recalled in order to give him their personal aid; sample and conference rooms are provided him in foreign cities; the *Moniteur Officiel* is published for his information, while his letters and personal emissaries are given every attention by the foreign corps and domestic staff of the government. There is this difference however. This labor is not poured out with lavish generosity as here, as certain fees are charged for the services performed, and these fees form a considerable item of revenue.

The *Office National du Commerce Extérieur*, which is the radiating center for French commercial intelligence activity and which corresponds to our Bureau of Foreign and Domestic Commerce, was organized in 1898 as a subsidized private agency. By Act of the French Parliament of August 25, 1919, it was made a public department under the control of the Ministry of Commerce and Industry; but its activities are still supervised by a non-official advisory committee drawn from French commercial interests. Branching out from it in one direction is the commercial attaché and consular service, whose work it directs; and in the other, a district office service scattered throughout France.

The French district office service, which carries on an unusual variety of activities, was organized through the instrumentality of the *Comité National des Conseillers du Commerce*, a semi-official organization with headquarters in the same building as the *Office National du Commerce Extérieur* but with a membership drawn from all sections of France. In addition to acting

as distributors of the commercial information received from abroad, they exchange information, and foster conferences among merchants and manufacturers interested in foreign trade.

The French commercial attaché, in addition to acting as technical counsellor of the diplomatic mission to which he is attached, is particularly charged to assist French trade by reporting on tariff legislation, commercial conditions, markets for particular products, a foreign and local competition, selling methods, and the general economic position of the country in which he works, and to assist directly French business interests by furnishing advice and names of possible agents, by distributing catalogues and samples, or by providing office accommodations for their commercial travelers. He has complete control over the other commercial services in the country to which accredited, including the activities of the consular corps and the French chambers of commerce. In order to assure that his work shall accord directly with the export needs of French producers, he is frequently recalled to the homeland, spending approximately one-half his time there in conference with producers, merchants and exporters.

As in other countries, the French service has grown rapidly since the war. Prior to 1913 there were only six commercial attachés, while at present there are about forty-five. Their work enjoys special support through the provisions in the law of August 25, 1919, by which the revenue necessary for carrying on French trade promotion activity is derived from a special tax on imports and exports. The tax has regularly produced more funds in recent years than have been appropriated: of an estimated yield for 1925 of \$862,500, the excess returned to the Treasury amounted to \$290,325.

Contrary to the British system, the French commercial attaché is not a *fonctionnaire*, a permanent member of the civil service. Commercial attachés are commissioned for only a short period, not exceeding five years, and are subject to removal. They are chosen in co-operation with a committee composed of business men and manufacturers.

In addition to the commercial attaché and consular service, the French Government maintains in the principal cities of the world a number of "Commercial Offices" for the sole purpose of providing facilities to French exporters for establishing contacts. Every effort has been exerted to make them as practical as possible and to keep them in personal touch with business. Although they are under the personal supervision of the commercial attaché, they are administered by a committee composed of expert manufacturers and merchants and are managed by a trained staff along business lines. They are active in organizing exhibitions; and their exhibitions in London, Zurich, Basel, Madrid, Barcelona, Amsterdam and Bucharest have been successful in gathering in trade for the exhibitors. In addition to organizing exhibits and rendering direct assistance to French commercial travelers abroad, they obtain responsible agents for French houses, furnish information concerning tariffs, customs, and business practices, assist in cases of litigation arising between French firms and foreign customers, aid French citizens in seeking employment in commerce or manufacturing abroad, and distribute catalogues and advertising matter.

Buttressing the official agencies outlined above is the network of French chambers of commerce, between forty-five and fifty in number, which are supported by government subsidy, and the French foreign banks, both of which

are definitely united with the government in the work of providing foreign trade information.

OTHER GOVERNMENT SERVICES

Italian business interests have begun to realize that if foreign markets are to be found or retained for their surplus production of textiles, felt hats, automobiles and foodstuffs, government assistance must be enlisted. A commercial information service had been provided by the government as early as 1878, but its activities were very limited until shortly after the war, when the corps of commercial attachés and commercial agents was transferred from the direction of the Ministry of Foreign Affairs to the Ministry of Industry and Commerce (now called the Ministry of National Economy). The government at the time proposed the creation of a special organization to aid manufacturers in marketing their products abroad, but public opposition arose and these plans were abandoned.

The matter has now been revived by the passage of resolutions at a meeting of the General Federation of Industry recommending the creation of a National Institute of Foreign Trade. As a result of this action, a bill has been drafted which practically assures the creation of a semi-official institute for the purpose of coördinating and regulating the various activities of the government concerned with foreign trade promotion.

The government of the Netherlands maintains under its foreign office a corps of commercial attachés, who exercise jurisdiction over consular activities and report on economic conditions. A special feature of Dutch activity is the appointment of honorary consular officers and trade advisors in foreign countries, about forty being located in the United States. The government also makes wide use of

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subsidies to various associations interested in the development of foreign trade, typical of which is the Associated Bureau of Trade Information, located in Amsterdam, for the purpose of providing addresses of foreign importers and exporters to its members, and vice versa.

In Denmark, insistent demands made by commercial and industrial enterprises led the government in 1921 to reorganize its commercial intelligence service by creating a bureau of trade information under the foreign office. This bureau gathers information from the consular and diplomatic corps, the commercial attachés and the "commercial agents" (individual merchants and traders abroad acting as correspondents of the government), and makes it available to the commercial public largely through the medium of three separate publications, one of which is printed in three languages—Spanish, German and French. Although the policy of publishing a bulletin in foreign languages is somewhat unusual, it has been found an effective method of foreign propaganda for Danish goods.

Among other countries with commercial attaché services are Sweden with twelve such representatives abroad; Belgium with nine; Brazil with six; China with five; Norway with four; and Spain and Chile with three each. Even such countries as Mexico, Roumania, Venezuela, Finland and

Latvia have undertaken some sort of foreign commercial intelligence service.

In examining the commercial intelligence systems of foreign governments, characteristics which draw attention by their contrast to American methods are the use of subsidized and semi-official agencies, the organization of trade fairs, and the more political character of their services; while features which resemble methods familiar here are the practice of staffing their bureaus with men drawn from industry itself, the recalling of foreign representatives to meet and confer with the commercial interests, and the organization of the home bureaus along commodity, technical and geographic lines. The individual trader is usually impressed by the fact that information is not handed out quite so freely by foreign governments as by ours.

Overseas trade cannot be obtained by sitting down at home awaiting, Micawber-like, for something to turn up. It must be found and captured. European governments have begun to realize that if they are to regain their markets lost by the war they must send out trade ambassadors as well as diplomatists. The combined efforts of European governments in this field are considerable, and, so far as we are concerned, must be regarded as a unit. Supplemented by various semi-official organizations, and enjoying the full support of their governments, their efforts are beginning to tell.

Government Assistance in Financing Foreign Trade

By F. CYRIL JAMES, PH.D.

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TRADE is as old as civilization itself—indeed it may be said with much truth that civilization is an outgrowth of the exchange of ideas which was and is a by-product of trade between tribes or nations of differing ideals and varied standards of living. Traces of the Minoan civilization have been found in Egypt, and there is little doubt that the hardy Cretan sailors exchanged ideas as freely as they did the wares which constituted the foundation of the trade which made them wealthy. Phoenicians, Hanseatic merchants, Dutch and English have all added to the development of their nation and to its historical renown by trade, and it would perhaps be true to say that without foreign trade these nations would never have been able to create the heritage which they gave to their descendants. Governments, too, have almost always been directly and closely interested in the trading ventures of their subjects, either because trade furnished no small portion of their revenues from taxation or because it was by trade that their prestige (and ultimately their dominion) was extended. The English regulation of the export of wool in the 14th and 15th centuries with its closely prescribed staple towns, through which alone the wool might be exported, constitutes a very good example of governmental assistance in the financing of foreign trade. At a later date the monopolies of the Dutch and English chartered companies, the protection of the Colonial trade (that costly regulation which ultimately led the American Colonies to make the Declaration of Independence) and even navigation laws and

preferential tariffs, constitute a governmental regulation of foreign trade, which, in part at least, was of assistance in the financing of it.

To carry the study of governmental assistance in the financing of trade back to the earliest dawn of history and to describe in detail the forms which it assumed at various historical periods, would be to attempt the impossible. To accomplish the task it would be necessary to write an economic history of the world—a task far beyond the possibility of this paper. Some limitation of the study is therefore necessary, both as to the historical period to be covered and as to the countries whose policies are to be discussed. In the first place, it seems best that we should confine ourselves to the post-war period, since the war so completely revolutionized economic conditions throughout the world that any study of war-time or prewar conditions would be of purely historical value to-day. Moreover, one of the major economic results of the war has been the awakening of the governments of the greater commercial nations to a fuller realization of the necessity for an active and definite economic policy. The world had tended to modify the doctrine of *laissez-faire* even before the war: individual countries had applied measures of economic protectionism to meet isolated cases, but the extent and nature of these protective measures varied widely from one country to another. It was the mobilization and control of economic resources by the belligerent governments—a measure rendered imperative by modern warfare—which brought home to these governments

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the absolute necessity of a co-ordinated commercial and economic policy. Even in England, which has been for three quarters of a century the home of economic liberalism, this need was only vaguely realized and a few halting steps have been taken to satisfy it, among which are to be found measures for the governmental assistance of those engaged in the financing of foreign trade.

The limitation of the study as to countries is less easily determined. At first thought, it might seem desirable to make an analytical study of the methods adopted by each of the great commercial nations of the world; but such a study would necessitate a great deal of research in fields where the material for effective work is not easily obtained, and when the task was finished it would be found that all countries had adopted one or other of a very few methods. For that reason it seems better to study in detail only two large commercial nations, the United States and the United Kingdom. First, because we shall find in these countries examples of almost all of the possible methods by which a government can assist in the financing of foreign trade; secondly, because these two are at present the outstanding traders of the world; and lastly, because they are the countries with the economic policy of which the writer is most familiar. From time to time, in individual cases, it may be necessary to make reference to some other country in which a particular method of governmental action has been particularly developed, but for the greater part the study will be confined to England and the United States.

METHODS OF ASSISTANCE

The methods by which a government can assist in the development of foreign trade are innumerable, and

when we confine ourselves rigidly to assistance given in the *financing* of trade, the methods vary all the way from direct subsidies paid to manufacturers on goods exported, to one as indirect as the stabilization of economic conditions within a foreign market by means of an international loan, the procedure followed in Austria under the aegis of the League of Nations, and in Germany under the terms of the Dawes Report. Nevertheless, it is possible to extract from this medley three distinct types of assistance, which, in increasing order of directness, are:

- (1) The exemption of exporting organizations from such anti-trust legislation as may govern domestic corporations;
- (2) government assistance in the provision of banking facilities specially designed to finance foreign trade; and,
- (3) direct financial assistance given to the exporter by the government either in the form of subsidies or, more usually, in the form of credit insurance.

A very few methods by which governments indirectly assist in the financing of foreign trade do not come under any one of these heads, as, for instance, the subsidizing of a steamship line which is specifically established for the purpose of developing foreign trade between the subsidizing country and some particular area of the world. Such instances are rare, and in almost every case there are other motives present of greater weight than the desire to assist in the financing of foreign trade, so that they can be omitted from this discussion.

LEGISLATIVE ASSISTANCE

The exemption of exporting organizations from the anti-trust laws which apply to domestic business within a

country, may not appear to have any close relationship to the business of financing foreign trade, but in practice one of the chief reasons for co-operation in the export trade is the financial one, because the survey of the foreign field, the extensive advertising campaigns and possibly the maintenance of a permanent agency in some foreign city, are all very expensive. Where combination and co-operative exporting are illegal, the small manufacturers are automatically barred from the foreign market because they are unable to stand the financial strain of the exporting business. For this reason the question of the exemption of exporting organizations from the anti-trust laws of a country is very definitely one method by which the government can assist in the financing of foreign trade.

In the majority of the trading countries of the world, however, no anti-trust laws exist. Thus in England the only law affecting combinations is the old common law doctrine that agreements in restraint of trade are null and void. The policy of the law is to encourage competition, but it does not prohibit combination, and while "agreements in restraint of trade" are invalid, the definition is very strictly interpreted and the English courts give a wide scope to freedom of contract. To the knowledge of the author they have never interfered with a consolidation of competing industrial enterprises into a single company on this ground. Moreover, the long-established trade in British products in many markets of the world, due to their pioneer position, the excellent representation effected by British export houses, and the advantage of British shipping and banking facilities, have enabled British manufacturers to hold their foreign markets in many lines without as large a degree of combination as that which character-

izes, say, German industry. In various important industries, however, combinations have grown up. Recently a number of large British manufacturers of machinery of all sorts have formed the Representatives for British Manufacturers Ltd., an organization to handle their business in certain important foreign markets and to carry on an aggressive campaign for its extension. Similar organizations for foreign trade have been formed, or are in process of formation, among such other British manufacturers as those of electrical, cotton-textiles, pottery, tobacco, wall-paper and iron and steel goods.

Germany is usually thought to be the home of co-operative exporting, and in that country prior to the war there were some six hundred important cartels (*i.e.* combinations to control the market) which embraced practically every important industry. Many of these dominated the export trade of their industries and carried on vigorous campaigns to extend their foreign business. Here, as in the case of England, however, there is no anti-trust law. The German civil law reorganizes the complete validity of industrial combinations, while the criminal code contains no prohibition against cartels, nor any special law concerning them. The attitude of the German Government towards cartels, in both domestic and foreign trade, may be characterized as one of benevolent watchfulness, and the same holds true of most commercial countries.

It is, then, with the United States that we are primarily concerned in any discussion of governmental assistance by the exemption of exporting organizations from the legal restrictions that prevent combination in domestic business. Under the Sherman Act of 1890 and the Clayton Act of 1914, Congress had very effectively limited combinations and amalgamations in American

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industry and trade. The resultant independence of American importers was very disadvantageous to the development of the export trade of the United States and, as was pointed out by the Federal Trade Commission in its report on the necessity for American co-operation in the export trade:

It is apparent . . . that this country's organization for the export trade must be strengthened if its manufacturers and producers are to compete on more equal terms in the commerce of the world. Obviously, most of the American exporters, handicapped by dependence upon foreign shipping and foreign financial institutions, and forced single-handed to oppose united foreign competitors, are at a material disadvantage. In international trade the competitive conditions have been largely in favor of the foreign concerns, particularly when opposed by the smaller American exporters. Co-operations solely for export business will go far to permit the development of stronger American organization, and may be particularly advantageous to smaller concerns.

In response to this need the Webb-Pomerene Law was passed in 1918. In brief, this law practically negatives the application to export trade of the former anti-trust legislation to which reference has already been made. It authorizes the formation of an export association to be composed of "any corporation or combination by contract or otherwise of two or more persons, partnerships, or corporations." Such an association for export may be formed whenever conditions make it advisable that for a better exploitation of foreign markets an arrangement should be entered into for co-operation between competing concerns. Any such arrangement, however, must be entered into "for the sole purpose of engaging in trade or commerce only in goods, wares or merchandise, exported or in the course of being exported from the United States

or any territory thereof to any foreign nation"; if they go outside of this field they will come within the provisions of the anti-trust laws. Moreover, it is expressly provided that the exemption from the anti-trust laws does not apply to the "production, manufacture or selling for consumption or for resale within the United States or any territories thereof, of such goods, wares or merchandise, or any act in the course of such production, manufacture or selling for consumption or for resale," and the export association is expressly forbidden to restrain trade in any way within the United States or to commit acts in restraint of the export trade of any domestic competitor of such association. Finally, the Federal Trade Commission was given general supervisory powers over all such export associations as might be created.

A more specific illustration of the same idea is found in the provisions of the Merchant Marine Act of 1920, whereby American marine insurance companies are exempted from the anti-trust laws insofar as exemption may be necessary to enable them to participate in the marine insurance syndicates envisaged by the Federal Marine Insurance Act. It must be remembered, however, that any such legislative provisions can only be of assistance in cases where the export consists of standardized products or services.

PROVISION OF BANKING FACILITIES

The war and post-war period has witnessed a great extension of old institutions and a rapid growth of new institutions, all designed to increase the foreign credit facilities needed by British traders. In part the development was occasioned by the credit needs of the war, but it has been in no small measure due to "the will to realize an all-British system of banking which can meet the far-flung needs of

imperial and world trade without too vital reliance on foreign interests." The government itself has taken a hand in this movement, but as in most questions relative to the English Banking System, the direct action of the State has been very small, although the motives have often been governmental in their nature. Perhaps the most definite governmental assistance has come from the subsidizing or sponsoring of such companies as the British-Italian Corporation and the British Trade Corporation, but in addition to this the government has invested some £1,198,000 in the Commercial Bank of Siberia (primarily to keep the control of that bank out of enemy hands), while the control of the Anglo-Austrian and Anglo-Czech banks by the Bank of England must be regarded as having at least a governmental sanction, despite the fact that the Bank of England is legally a private corporation. It is therefore somewhat difficult to state precisely to what extent the movement has been aided by governmental assistance, but it cannot be denied that the attitude of the State has been distinctly favorable. Moreover, if we confine ourselves to a discussion of the British Trade Corporation and the British-Italian Corporation, we are within the field of direct and determinable state support.

The British-Italian Corporation was organized in 1916 and has from its creation been closely identified with the *Compagnia Italo Britannica*, of which Corporation it later acquired all the stock. Each bank enjoyed the official support of its government and in the case of the English Company the British Government agreed to pay an annual subsidy of £50,000 for the first ten years of the Bank's life, or five per cent of the paid-up capital in case that did not exceed £1,000,000. This was a grant without interest and the

Treasury was not to be reimbursed in case of liquidation until after the shareholders had received back their entire invested capital together with compound interest at five per cent per annum. Once the Bank was established, the cordial support of the large domestic banks soon rendered the subsidy unnecessary and a new agreement was made with the government whereby the sum of £233,418 already received was to become the property of the British-Italian Corporation and was to be held by them as reserve.

As Mr. Leland Rex Robinson has pointed out in his able pamphlet on the subject, two significant facts appear in connection with this Company: "The first is that it has been organized for industrial rather than for ordinary deposit banking. The second is the wide participation of London banks in the stock of the New Company," no less than twenty-three prominent British institutions being listed among the shareholders. The authorized capital of the British-Italian Corporation is £1,000,000, in shares of £20, all of which has been privately subscribed and called up. Its chief services have been in accepting and endorsing bills, negotiating paper drawn on other banks, and guaranteeing payments for British products, especially ships purchased by Italian interests. It has also aided in financing Italian imports of raw material from the Dominions, particularly in the case of Australian wool. The British Trade Corporation is an undertaking of a much wider scope, as was pointed out by the Governor in his speech at the First Annual Meeting:

We are genuinely desirous of assisting the export trade of the country by providing financial assistance as far as our means will permit; we are anxious to provide the commercial community with information that may come into our possession, . . . and we hope that when business revives we

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may be made the pivot upon which important syndicates for great industrial developments at home and abroad may revolve.

It was incorporated by Royal Charter in 1917 to carry into effect the recommendation of a departmental committee of the Board of Trade, whose terms of reference suggest the hopeful, if undefined, scope of the Corporation's activities as being "to consider the best means of meeting the needs of British firms after the war as regards financial facilities for trade." The British Trade Corporation was thus directly sponsored by the British Government from its inception and in the case of one at least of its subsidiaries there has existed a very close relationship ever since, but it has not at any time received direct governmental financial aid.

Subsequent to the boom of 1919-20, the institution fell upon very bad times and the following years of depression witnessed the absolute failure from the financial viewpoint of several of its foreign ventures. At the present time, therefore, its affairs are in a state of quiescence, but there is considerable promise of future usefulness and it may be well to point out briefly the lines of activity with which it has chiefly concerned itself in the past. Its primary purpose has been "to encourage export trade directly by a more immediate linking of banking and commerce than is common in England." This the Corporation has attempted to do through numerous subsidiary companies and through firms in which it holds a part interest. Secondly, it has planned "to enter trading fields formerly held by the Central Powers and to secure them for the British manufacturer." This is particularly the case in Brazil and other South American markets, in the Levant and in Southern Russia, and to this end such sub-

sidaries as the Levant Company, the Portuguese Trade Corporation, the South Russian Banking Agency, and many others, were formed. In addition to these it aims "to provide overseas banking facilities where British institutions are not already active." In a word, the cornerstone of its policy has been to encourage trading companies specializing in different areas and to increase British foreign banking services without competing with well-established institutions.

As has already been mentioned, almost all the subsidiaries of the British Trade Corporation came to grief in the depression of 1921, but this does not apply to the Trade Indemnity Company, to which special reference must be made. This company was formed by the British Trade Corporation for the purpose of guaranteeing foreign credits, and it has gained a well-deserved eminence in this line. The underwriter employed is one of the ablest men in England in what is still a comparatively new form of insurance, and he has also served for some time as adviser to the Export Credits Department of the Board of Trade, thus creating a link between the Trade Indemnity Company and the government. We shall have occasion to refer to this Company again when we come to discuss the governmental scheme for guaranteeing export credits.

The United States has witnessed a similar development in its banking structure, beginning with the Federal Reserve Act itself and carried one stage further by the Edge Act. Prior to 1914, the United States has not paid a great deal of attention to the development of its foreign trade and even today the problem of finding and keeping overseas markets is far less vital to America than it is to England. Indeed, the provisions of the old national banking system rendered utterly impossible

any development of foreign credit facilities by American banking institutions other than the large private banking houses. The Federal Reserve Act of 1913 and the subsequent amendments to it remedied these defects in some measure. In Section 14 of the Act the member banks are authorized to accept bills of exchange, while the Federal Reserve banks are given power to rediscount commercial paper of certain kinds which is offered to them by their member banks and

"to purchase and sell in the open market . . . cable transfers and bankers' acceptances and bills of exchange of all kinds and maturities by this act made eligible for rediscount" as well as to "deal in gold coin and bullion . . . bonds and notes of the United States and bills, notes, revenue bonds and warrants with a maturity from the date of purchase not exceeding six months, . . . issued . . . by any state, county, district, political sub-division or municipality in the United States."

By this section there is thus created a bankers' acceptance, which was hitherto unknown in the foreign trade of the United States, unless drawn upon a foreign banker. Nor is this all, for the Act itself, the regulations of the Federal Reserve Board and the policies carried into effect by the several Federal Reserve banks have all aimed at developing in the United States an acceptance market of such sort as will greatly facilitate the financing of foreign trade by the use of bankers' acceptances.

This aim is economically sound, but it must unfortunately be pointed out that as yet it has not met with the success it deserves. This is partly due to the conservatism of American business men, but more largely to the fact that undue advantage has been taken of the favorable treatment accorded to bankers' acceptances by the Federal Reserve System, by persons in need of

credit accommodation. The bill of exchange, therefore, has unjustly gained a bad reputation and the American Acceptance Council is only slowly succeeding in its self-imposed task of educating the American business man to the superior advantages of the bankers' acceptance as an instrument for the financing of foreign trade.

Moreover, under the same section, any Federal Reserve bank is authorized "to open and maintain accounts in foreign countries, appoint correspondents, and establish agencies in such countries," while, under Section 23, any national bank with a capital and surplus of \$1,000,000 may "establish branches in foreign countries . . . for the furtherance of the foreign commerce of the United States" and in addition or alternatively may "invest an amount not exceeding in the aggregate ten per centum of its paid-in capital stock and surplus in the stock of one or more banks chartered or incorporated under the laws of the United States and principally engaged in international or foreign banking." Direct provision is therefore made for the development of American banks overseas in a manner that should be of considerable assistance to those engaged in the foreign trade of the United States and the provision has been made good use of. Acting through the Federal Reserve Bank of New York, the Federal Reserve System has at different times established direct financial relationship with the Bank of England and the *Banque de France*; while many of the larger national banking associations have opened branches in the larger European and South American cities, notably the National City Bank of New York and the Guaranty Trust Company of the same city.

Mention should also be made of the Edge Act, which provided for the creation of financial institutions specializing

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in foreign trade. Two classes were provided for: (a) those doing an acceptance business and (b) those designed to deal in investments; but very little development has occurred along either line, particularly in the case of the investment corporations.

DIRECT LOANS AND SUBSIDIES

Of greatest interest, perhaps, are the methods by which governments have extended direct financial assistance to the exporter. In this case the motive and the cost of assisting in the financing of foreign trade are both clear and measurable, so that the controversy which is so often aroused by the extension of indirect acts is less liable to arise. Nevertheless, if we exclude from our study the subsidies made to some of the earlier European chartered companies during the rapid, almost phenomenal, development of trade and commerce which the 16th and 17th centuries witnessed, direct governmental assistance in the financing of foreign trade is of comparatively recent birth.

Since the war, two acts have been passed by Great Britain with this aim: the Overseas Trade (Credits and Insurance) Act of 1920 and the Trade Facilities Act of 1921. Under the first of these acts, which is usually known as the Export Credits Act, the government undertook to advance to the exporter without recourse an amount not exceeding eighty per cent of the cost of British goods exported. Advances were made against the receipt of the bills of exchange accompanied by the necessary shipping documents, and the aggregate amount of such advances was not to exceed £26,000,000. Very little advantage was taken of this offer of the government, and as the Special Committee of the Department of Overseas Trade, appointed to investigate the matter, points out in its report, the

"fear of bad debts" has been more influential in restricting British export trade than the lack of credit facilities—a statement which our previous survey of the development of British banking facilities would have led us to expect. For this reason the provisions of the acts which relate to the guaranteeing of export credits are of much more importance to the student of the subject, and have been more fully utilized by the exporters.

In its amended circular of January, 1925, the last one issued, the Export Credits Department of the Board of Trade states that,

in order to facilitate the resumption of the ordinary means whereby traders and others can obtain facilities from their bankers to enable them to finance their export trade, the Government is prepared to entertain proposals to give guarantees against shipments of British goods exported from the United Kingdom.

Guarantees with full recourse are given up to 100 per cent of bills maturing in one year or less, or up to eighty-five per cent, where credit is extended for more than a year, or alternatively, the government will guarantee not more than forty-two and one-half per cent of the draft without recourse. Both of these provisions apply to individual export transactions, or to "credits up to specified amounts in respect of specified countries and for transactions to be put into operation within a specified time," *i.e.* to a line of credit; and in addition to this the government is prepared to make arrangements with approved banks or banking houses, in respect of any loss which may be incurred by such banks from transactions carried through by them for exporters in the United Kingdom, the share of the government in no case to exceed seventy per cent of any loss which may be incurred. In all of these cases a reasonable pre-

mium is charged by the government for the service which it renders.

It is in this matter of guaranteeing export credits that the British Government has rendered the greatest assistance to those engaged in the financing of foreign trade, and it will be remembered that the Trade Indemnity Company (the only successful subsidiary of the British Trade Corporation) also specialized in this work. Insurance of commercial credit by private companies has generally taken the form of reimbursing a net loss when all matters pertaining to the transaction had been ultimately adjusted, whereas, under the new method of guarantee, reimbursement is effected as soon as the importer fails to meet the draft. Whether the delays in the former case are long or short, the advantage of the latter plan to the commercial man is very evident, and until the guaranteeing of export credits is taken up to a greater extent by private enterprise, the government scheme is imperative to the financing of England's foreign trade with these countries in which the unsettled economic conditions make trading too hazardous without some such guarantee.

The Trade Facilities Act was designed primarily to foster British industry with a view to creating employment, but the plan is also applied in some cases to foreign loans raised in the London market with the object of furthering exports by expediting the placing of loans whose proceeds will go to the purchase of goods fabricated in the United Kingdom. The government does not advance any money; it guarantees the payment of the interest (and sometimes the repayment of the principal) of loans which are floated in the capital market, the loans being thus floated with greater facility and at a reduced cost to the borrower.

As has already been pointed out, the

United States has not yet been faced with the imperative need of developing its foreign trade, and as would be expected, very little has been done in the way of directly assisting in its financing. The American Government has, however, done something in this line through the medium of the War Finance Corporation, which was organized in 1918 with the dual object of (a) continuing the restrictive activities of the earlier Capital Issues Committee, and (b) extending new credits to essential industries. They were to lend, not cash, but their own notes maturing in from one to five years, such notes being eligible as collateral at the Federal Reserve banks. It was further expected that they would lend these notes, not directly to the enterprises which needed the accommodation, but rather to the banks which represented these industries; and which would act as intermediaries between the industries and the War Finance Corporation. In practice this machinery proved to be too complex and most of the credit was actually extended without the intermediate aid of banks.

By an amendment approved March 3, 1919, the Corporation was authorized to make advances to the extent of one billion dollars to American exporters and to American banking institutions which financed American export. This authority was exercised until May 10, 1920, when the Corporation's activities were suspended at the request of the Secretary of the Treasury. Seven months later, however, Congress by joint resolution directed the Corporation to resume operations "with the view of assisting in the financing of the exportation of agricultural and other products to foreign countries," and the powers of the Corporation were greatly broadened by the Agricultural Credits Act of August 24, 1921. Only a moderate advantage has been taken of

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this by American exporters, however, and the total export loans to date amount to little more than \$100,000,000 in all.

CONCLUSIONS

The growing importance of foreign trade no longer needs to be demonstrated to the student of economics, and few would care to dispute the statement that the development and fostering of that trade is a matter of vital importance to those who are responsible for the economic policy of the government. It is then of advantage to attempt to draw some conclusions from what has been said on the subject of governmental assistance in the financing of foreign trade, not so much with a view to the statement of theoretical principles as in the hope that the practical experience of history may serve as a guide to future discussions. Governmental aid extended directly in the form of export credits seems to have been less successful in achieving the desired aim than the more indirect method of guaranteeing that credit which the exporter obtains through the usual financial channels. Under such a scheme the relationship between the exporter and his banker tends to be closer, which is of consider-

able practical advantage to both parties; and in addition, the banking house is probably in a better position to estimate the amount of credit that can reasonably be extended in any given case than is a government bureau or department. The government, therefore, should do all in its power to foster the development of financial institutions adequate to meet all the needs of the exporter, and until such time as the business of guaranteeing export credits is more generally carried on by private enterprise, the direct guaranteeing of such credits by the government appears to be of great value.

In those countries which restrict combination and amalgamation in domestic trade—particularly the United States—co-operation in the export trade should be carefully encouraged by the government, and all legal barriers to this should be removed. These seem to be the chief conclusions to be drawn from the recent history of governmental assistance, and it might not be inopportune to add that these methods appear to be more likely to meet with success than many other less direct ways which are, nevertheless, in some measure designed to assist in the financing of foreign trade.

Investment Policy in Relation to Foreign Markets

By GEORGE W. EDWARDS, Ph.D.

Professor of Banking, New York University

THE changed position of the United States from a debtor to a creditor nation has created problems requiring the formulation of policies on which leading economic groups within this country have not always been in agreement. One important issue has been the relation of our foreign investment to our overseas trade. In order to stimulate the latter, a so-called "tying" policy has sometimes been urged. By this expression is meant either a formal insertion in the loan contract or an informal understanding between the borrower and the lender that the former will spend all or part of the proceeds of the loan in buying goods from the latter. Exporters and those manufacturers interested in foreign trade naturally endorse such a policy, for it results in increasing their sales to foreign countries. American bankers engaged in international investment finance quite generally oppose the policy of tied or restricted credits, for they interfere directly with the volume of foreign borrowing and so affect adversely the extent of their business.¹ Thus two important economic groups, motivated naturally by their respective interests, hold diametrically opposite views on a policy which is of truly national importance. In determining whether the United States shall follow a tied or an untied investment policy, it is well to consider the subject not from the viewpoint of any special interest, but from the standpoint of public welfare. With this thought in mind, the policies of foreign countries

before and since the war will be surveyed and the conclusions applied in formulating a policy for the United States.

PREWAR POLICIES OF FOREIGN COUNTRIES

It is difficult to find direct evidence which throws authoritative light on whether or not a tying policy is being followed by a lender. As mentioned above, such a policy is provided for either in an expressed stipulation of the loan contract or in an informal "gentleman's agreement." The outside public has generally no access to such primary sources of information, and hence indirect evidence must be sought. It usually emanates from a hostile source such as a foreign country competing in overseas markets with the nation which is supposed to be pursuing a tying policy. This fact accounts for the general impression that tying policies were universally followed by all nations before the war. Thus Nikolai Lenin, in his work, *Imperialism, The Last Stage of Capitalism* (p. 297), writes as follows:

On the international money market there is being performed a comedy worthy of Aristophanes' pen. A number of Governments, from Spain to the Balkans, from Russia to Argentina, from Brazil to China are coming openly into the great money markets with urgent applications for loans. The money markets are not now in a very favorable condition, nor is the outlook cheerful. But not one of the markets dare to say no for fear some other market will make the loan and thereby secure decided advantages in return for that accommodation. In all those international deals, the creditor always secures certain privileges

¹ Article by Thomas Lamont, in the reconstruction number of the *Journal of Commerce*, April 24, 1922.

trade treaties, coaling stations, contracts for harbor construction, fat concessions, orders for artillery.

This excerpt expresses the popular view of the investment-trade policy of European countries in the prewar period. In order to arrive at a true understanding of this policy, it is necessary to review in the case of the leading creditor countries of Europe, first, the relation of the banks to industry, second, their relation to the government, and third, the form of the foreign investments made by these lenders.

In general, banks can assume one of two relations toward the industries which they are financing. Under the so-called "classical" English system of finance, a bank is supposed to grant strictly commercial credit to meet largely the seasonal needs of business and in general abstain from any interference with management policies. On the contrary, continental banking, as represented in the so-called German system, is expected to extend long-term credit continuously to industry and at the same time to participate actively in the direction of the concerns receiving such financial aid.

The government of a lending country may adopt an attitude of either *laissez-faire* or of regulation toward banks exporting capital. Such regulation may vary in intensity from mild control availed of only when public interest is directly concerned, to close supervision over every loan floated in the national money market. Such strict control is not so much economic as political in nature, and is exercised more in the interest of the foreign office of the lending country than in behalf of trade.

Finally a distinction should be drawn between the two forms of investment. It may be either a loan or a proprietary interest, and so is expressed on the one hand in the form of a bond, note, mort-

gage or bank deposit, or on the other as a stock or direct ownership.

Germany: With these three distinctions in mind, the investment-trade policies of the prewar lenders may now be better understood. In general the countries of Central Europe, particularly Germany, followed a tying policy. This was especially true of local business in South America established by German capital. Thus the report of the Federal Trade Commission on *Co-operation in American Export Trade* (part I, p. 74) states the following:

Our [American] design, which showed a saving of \$60,000 to \$70,000 was accepted and approved by the engineer in Buenos Aires, but his decision was immediately set aside by the German directors, who advise him that the financing of the project by German capital was conditioned upon German materials being employed throughout.

Writing in 1914, C. K. Hobson, in his *Export of Capital*, p. 16, quotes from the *Manchester Guardian* as follows:

The Lower Austrian Discount Company has granted the Chinese Government a loan of £300,000, China undertaking to give the Poldhutte Cast Steel Work, during the next ten years, an order for tool steel, rifle barrels, and gun parts for an amount equal to that of the loan.

In the case of Germany and Austria, this tying policy can readily be explained in view of the factors mentioned above. In these countries the banks were partners rather than financiers of industry. The bankers usually have a controlling interest in the essential industries of these countries, and so in granting credit or in making loans to foreign borrowers, it was common practice to stipulate that they must make purchases not only within the country of the lender, but more particularly from those concerns in which the bank was itself interested.

In addition the German Government exercised a considerable amount of control over foreign loans made in the Berlin money market through the *Zulassungsstelle*, a committee of the Bourse which possessed the power of listing new securities. Naturally such control could readily be employed in compelling foreign borrowers to spend the proceeds in buying only goods "made in Germany."

German investments, particularly in the decade before the war, were more inclined to take the form of proprietary interests as seen in the nature of their holdings in South America. Concerns which were controlled and owned by Germans would naturally insist upon the placement of orders with firms of their own nationality, even though in certain cases it might result in a financial loss as seen in the case cited above.

France is usually regarded as the leading example of a country which before the war insisted upon restricted credits and loans. Thus Hobson, in his *Export of Capital* (p. 16), writes:

In France an express stipulation is often inserted in loan contracts between the banks and foreign governments that the latter shall order part of the equipment which they require in France. It was proposed to render the insertion of such a provision compulsory.

To a certain degree the policy of tied credits when followed was the direct result of a strict governmental control exercised by the French Government over the Paris money market. As early as 1880 an executive order gave the minister of finance full authority to grant listing privileges to foreign securities and also to withhold such rights at will. This power was frequently employed in forcing foreign borrowers to buy French goods. Hence in 1908 the Argentine Government gave an order for military sup-

plies to the Krupp concern of Germany which thus won the business away from the Schneider Company of France. In consequence the French Government the following year refused to permit the listing of certain Argentine loans on the Paris bourse. Bulgaria was similarly banned for its failure to place orders with French firms.²

An examination of the foreign investment of France and her overseas trade in the prewar period does not bear out the conclusion that they followed an aggressive tying policy. Thus, of the total French foreign investments amounting to 45 billion gold francs, about 12.5 billions were placed in Russia in the period before the war.³ At the same time, of all Russia's imports, only four to five per cent came from France, while the United States with comparatively few investments in Russia accounted for six per cent.

This absence of an effective tying policy can be explained mainly by the relation between French banking and industry. Before the war French business on the one hand was financed not so much by banking as by industrial capital, for most lines preferred not to borrow from the outside but rather to finance themselves out of their own capital. At the same time French banking, after unpleasant experiences in early years, was quite generally unwilling to take a participation in local industry. Therefore, French financial institutions had little direct interest in forcing foreign borrowers to place their orders with French firms. Moreover, French foreign investments took the form rather of loans than proprietary interests,⁴ and so a further in-

² Federal Trade Commission, *Co-operation in American Export Trade*, p. 76.

³ Ambassador Berenger's report to American Debt Funding Commission, p. 129.

⁴ See Hobson, *Export of Capital*, Chapter VI.

centive was lacking toward carrying out a restricted credit policy.

Great Britain: In analyzing the evidence for light on the British investment trade policy, a number of individual cases may be found. The Federal Trade Commission's study on *Co-operation in American Export Trade* cites several instances which show that British financial interests, controlling South American railroads and other public utilities, insisted upon the purchase of supplies from Great Britain. Aside from these individual instances, statistics on British foreign investments and trade do not seem to indicate the insistence upon a tie policy. This is demonstrated in the statistics as of Hobson for the prewar period on the amount of loans floated in the London money market by foreign and colonial railroads and the proportion of materials purchased from Great Britain.⁵ If these figures for the separate years are analyzed, it is seen that while the loans continued in about the same volume, the amount and percentage of materials and equipment bought in the United Kingdom declined in proportion to the purchases made in other countries. This was particularly true of Argentina in the years immediately preceding the war when German competition was severe. In the case of the United States, American railway loans continued to be floated in huge amounts in the London market, while at the same time the purchases from Great Britain declined to an almost negligible sum, amounting to but £1,651,000 as against £31,733,000 obtained from other countries.

This absence of a general tying policy in the case of Great Britain before the war is primarily due to the attitude of the British banks toward industry. The traditional English banking policy was to provide strictly commercial

credit and to abstain from any form of industrial financing. Thus the great joint-stock banks of London had no direct primary interest in extending the overseas business of their customers, and were equally willing to finance the trade of American, French or even German firms.

Moreover, the British Government quite generally pursued a policy of *laissez-faire* toward the overseas investments of its citizens. True, Downing Street intervened in the Chinese consortium and caused the failure of the Crisp loan,⁶ but with few exceptions British overseas capital was essentially non-political in nature. The one force which tended toward the tying of loans was the fact that British investments, especially in the period immediately preceding the outbreak of the war, were more inclined to take the form of proprietary interests than of loans. Hence, British directors of foreign commerce were in a position to divert considerable business to firms in the United States.

Therefore in summary the three leading lenders of the prewar period followed a tying policy only to a varying degree, depending upon the force of the three factors of the relation of banking to industry, the extent of government control over investment, and the amount of proprietary investment.

POST-WAR TRADE-INVESTMENT POLICY

The war changed considerably the financial position of many of the great powers. Some have been reduced from the position of creditors to that of debtors, while others have been transformed from borrowers to lenders. Thus France and Germany are to-day minor factors in the international money market. From the evidence

⁵ *Export of Capital*, p. 16.

⁶ *Economics*, March, 1925, p. 77.

available it would seem that these countries in a somewhat different form than before the war are pursuing a tying policy in the credits and loans which they still grant. *Commerce Reports* (February 6, 1922) states that "a group of German manufacturers have agreed to furnish the Russian Government a credit to cover purchases by the trade department of the Soviet Government. . . . The credit is, of course, to be used exclusively for the purchases from participating manufacturers." It should, however, be noted that this was a credit extended by the sellers of goods themselves and not by banks.

Again, France, in extending inter-governmental loans to the members of the Little Entente, provided that the proceeds were to be applied to the purchase of military supplies from the French Government.

England, which before the war had not followed a general tying policy, has in this respect completely reversed herself. This change becomes clear from a review of the comments of the London financial press. The *London Times* (November 6, 1925, p. 20a), commenting on the Gold Coast Government loan of 1926, states that "an important feature of the loan is that all the money, with the exception of that required to pay local labor, will be spent in this country."⁷ Similar restrictions were imposed in loans made to Czechoslovakia. The British Government loans made to foreign countries under the Trade Facilities Act uniformly provided for the disbursement of the proceeds within the United Kingdom. Thus the loan to Lithuania, guaranteed by the British Government, stipulated that all the materials used in the construction of

the railways and elevators were to be of British origin.⁸

This change of policy by the British Government is part of the general program which Great Britain has been forced to follow since the war. Free trade has given way to protection, the *laissez-faire* attitude toward investment has surrendered to supervision, which under the unofficial embargo was as severe as that practiced by France or by Germany before the war. Such policies, however, must be regarded as only temporary and adopted to meet the emergency of a demoralized foreign trade and a consequent glutted domestic labor market. While the embargo has been removed, the impaired financial position and the large unemployment explains why the tying policy continues to have the endorsement of the government as is seen in the speech of Winston Churchill who, on the occasion of the lifting of the ban on the money market, said: "I hope so far as possible that preference will be given in the matter of credit to those issues which bring a high proportion of orders for goods."

The lenders, which have in part replaced Central Europe as exporters of capital, have quite generally followed a tying policy.⁹ Thus Italy in granting a loan to Poland stipulated that sixty per cent of the tobacco to be purchased by means of the loan was to come from Italy.¹⁰

U. S. POLICY

In the prewar period American investments in foreign countries were essentially proprietary in nature and so a tying policy was naturally followed. Thus the Federal Trade Commission

⁷ *Commerce Reports*, May 5, 1924, p. 321.

⁸ See Kimber's *Foreign Reports*, January 29, 1924, p. 64; *Commerce Reports*, September 18, 1922; *London Economist*, 1922, p. 768.

¹⁰ *London Times*, March 12, 1924, p. 18.

⁷ See also city notes for March 29, 1924, on foreign investment policy.

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in 1916 notes that "the investment of Chicago capital in packing houses in Buenos Aires insures the installation of American machinery in their plants (p. 75)."

Despite the criticism which may be heard in conventions of American exporters and manufacturers, many of the loans extended by our banks in the post-war period have been tied. A few instances may be cited. The prospectus of the Copenhagen Telephone Company, six per cent, 1925 loan, contains the statement that "a large part of its equipment, particularly that for its automatic centrals, has been purchased in the United States." Again, the circular on the Argentine four per cent, 1925 issue, reads: "We are officially advised that the proceeds of these notes will be applied principally to reimburse the Government for expenditures made to purchase materials in the United States for use by the Department of Agriculture." Concerning the loan to Peru in 1924, the *Commercial Chronicle* (October 11, 1924, p. 1696) notes: "This issue is to provide funds which are to be used in defraying the cost of sanitation construction work already done and being carried on by the Foundation Company, New York." Similarly, the loan granted by Dillon Read & Company to Bogota in 1924, required that "all engineering and construction work in connection with the above loan will be carried out under the direction of American engineers and contractors."¹¹ Also the proceeds of the Swiss loan of 1922 were spent in the United States.¹²

CONCLUSION

In conclusion, in the period before the war, the exporters of capital did not generally insist upon a tying policy.

¹¹ *Commercial Chronicle*, October 18, 1924, p. 1801.

¹² Kimber, *Record of Government Debts*, 1923, p. 894.

In the post-war period, however, European lenders have usually restricted the spending of the proceeds of loans. In formulating a policy regarding the tying of loans, the several kinds of loans must be distinguished. Thus, in the case of intergovernmental loans made for military purposes, such as the French loans to the Little Entente, or those for economic purposes as relieving unemployment under the British guaranteed credits, a tying policy may properly be insisted upon. The same conclusion may be applied to direct credits granted by parties acting both in the capacity of bankers and also producers, for they naturally have the right to insist that their goods alone shall be bought. Again, when such investment is in the form of a proprietary interest, the owner naturally can insist upon the determination of the selling policy.

A tying policy should not, however, be demanded in the case of a loan floated by a banking house which has no direct interest in the trade policy of the borrower. In this case the banker has a direct responsibility to his client who purchases the bonds of the foreign borrower. The bond buyer does not directly benefit by an insistence that the proceeds be spent in his country, but may on the other hand be injured if the borrower is forced to purchase goods at prices above those prevailing in other markets, for in the end the borrower's financial position may thereby be impaired.¹³

Whether or not American bankers will insert a tying clause in their loan or contracts will depend largely upon the future state of the international money market. If competition among the lenders of capital should increase, then there is little doubt that American bankers will be forced to abandon

¹³ For elaboration of this argument see the author's *Investing in Foreign Securities*, pp. 26-28.

such a policy in order to meet the terms offered to borrowers in other markets. The trend in the past year seems to indicate that such a condition lies in the immediate future and hence the

insistence on a tying policy may cause the loss of considerable financing to American banks and may check the aspiration of New York to become the world's financial center.

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American Railways and Export Trade

By SIDNEY L. MILLER

Professor of Railway Transportation, University of Iowa

LONG years ago and quite without thought of foreign trade, a great American declared that, though a man make no more than a better mouse-trap than his neighbor, the world will find him and beat a path to his door. And to this it might be added that, even though the mouse-trap be but a common one, its maker will set his feet upon strange ways only when the number of his traps exceeds neighborhood demands. In short, until a producer of goods is driven by circumstance to seek distant markets, he sits at home and, waiting, gives slight regard to those agencies upon which reliance must be placed for the transportation of his wares to the door-step of the buyer. Happily situated, such a producer may without risk to himself ignore the problem of carriage—or say, to parallel the legal maxim, *Provident emptor*.

But those days of calm indifference in the life of American industry are drifting rapidly into the golden past, as is evidenced by the trend of our export trade during the half-century just ended. At the opening of that period foodstuffs and crude materials contributed almost four-fifths of the value of our exports, while semi- and finished manufactures accounted for but one-fifth: many millions abroad depended upon the United States for cotton and for grains. Yet our manufactures now contribute almost half, while foodstuffs and crude materials, despite the continuance of great cotton exports, do little more than maintain a parity. And every sign points toward a further decrease in the volume of those exports for which the world's re-

liance was once in us, with a corresponding increase in the volume of those which must meet keen competition in every market where offered.

In consequence of this change, the United States may no longer wait complacently for a materials-hungry world to seek out a path to the door; instead, we must discover means of placing goods in the world market with expedition and at minimum cost. To accomplish this dual purpose effort must be directed steadily and thoughtfully toward reducing production expense without impairment of quality, and effort must be made to move the finished goods to the point of demand at the least outlay compatible with prompt delivery. At this point the development of foreign trade becomes a problem in transportation.

The obvious relationship between ocean shipping and foreign trade has caused the United States to give thought to the formulation of a merchant marine policy, though it must be admitted that our progress has not been noteworthy. The relationship of carriers by land to success in world markets, however, has commanded little attention in America and there have been offered but fragments of a comprehensive policy. In this paper certain of these fragments will be assembled with a view to aiding in progress toward a definite plan.

In the development of public policy with respect to the railways of the United States, there is slight evidence of thought and no evidence of legislative regard for any but domestic commerce. That commerce we have sought to protect by enactments de-

signed to secure to it the rights accorded under the old common law—adequate and continuous service at reasonable rates and without undue discrimination—though in our efforts we have been guilty of many errors of omission, commission and emphasis. Yet no less important are these basic principles of regulation to the exporter than to him who serves the domestic market; except as an adequate and continuous service be available, the foreign buyer cannot be assured of proper delivery and except as rates are reasonably low and discrimination controlled, the producer suffers a financial disability. And, because the average distance of American plants from tide-water is greater than those of competing nations, railway transport is more important than where easier access to water is had.

IMPORTANCE OF ADEQUATE SERVICE

Long accorded insufficient attention by the public and ignored strangely by the carriers is the importance of adequate service. While American producers were interested almost wholly in the home market and the railways were all guilty of inadequate service, prejudice did not enter, even though serious inconvenience was suffered. But when those same producers seek trade in markets which may be served by competitors who do not labor under the shadow of congestion, priority orders, and embargoes, an adequate service becomes vital. Such a service is now enjoyed by the domestic trader and, in large measure, by the exporter, be it said to the great credit of railway management. Since May, 1923, when the consequences of the shop strike and an excessive railway individualism were finally overcome, there has been at no time a net shortage of equipment. In 1925, indeed, with the largest revenue tonnage moved in history, the net sur-

plus of cars at no time dropped below 100,000 and the maximum gross shortage was less than 3000—about 1/60 of the net shortage in the same month of 1922. Yet the maintenance of this adequate service in the face of growing demands upon the plant will require enlarged properties and even greater efficiency, both offering a sharp challenge to management.

Much of the striking improvement in railway service has resulted from closer co-operation among the carriers through the Car Service Division of the American Railway Association and from the co-operation of that Division with the public through the Shippers' Advisory Boards. From these boards information is obtained which permits car requirements to be estimated with accuracy for a reasonable period in advance and such data enable the railways to marshal equipment to maximum advantage. Through these boards, too, the shipper is being educated to the more orderly movement of goods, to heavier loading and more efficient use of cars, and to fair treatment of one another. Much has been gained, yet much remains for these groups to accomplish, even in fields already opened.

However, the railways will soon face service demands which cannot be met by increased efficiency and greater co-operation alone: only an enlarged and improved plant, *with* increased efficiency and close co-operation, will serve. To secure such a plant, an adequate rate level is essential: though many factors have contributed to the weakness of railway credit, the inability of the carriers to earn a fair return would alone have occasioned a sharp decline. In the Transportation Act Federal legislation recognized the need of adequate earnings, but the constant and unreasoning attacks upon the rate provisions of that measure since its passage indicate all too clearly that an

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enlightened public opinion does not even yet exist on this point. Except as moneys now invested in the railways receive a fair return, the funds needed to improve the plant will not be forthcoming—and the consequences of inadequate service are far more serious than those ills which might flow from a moderately higher rate level. If inadequate service constitutes a threat for those who rely upon the domestic market, it assuredly imperils the interests of the exporter even more.

The location of weak lines in areas served also by strong lines has handicapped producers served by the weak and has been a source of much difficulty for regulatory bodies seeking to secure like treatment for all. Consolidation might, in certain instances, improve service and minimize governmental interference. Greater gain will result, however, from increased co-operation among railways, such as the pooling of certain traffic and the joint use of facilities which, exclusively employed, react to public disadvantage. Further, if the United States develops a comprehensive plan of inland waterways, close co-operation between rail and water carriers in all service matters should be effected. This may be had with the independent operation of the two or it may prove desirable to permit, even encourage, the utilization of these waterways by railway-owned boats. To facilitate the latter, the Panama Canal Act ought to be modified in conformance with the recommendation of the Interstate Commerce Commission in 1917. Legal basis should also be provided for co-operation between the railways and vehicles operating upon the public road. Already there is clear evidence that the railways desire to correlate rail and motor transport, using the one as a proper supplement to the other. This movement should be encouraged, with the

public protected against abuses at the hand of railway-owned or separately operated vehicles by the early adoption of an intelligent regulative policy.

But the great opportunity for the improvement of export service lies in terminal and port operation: it is here that railways and governmental units have failed conspicuously to deal effectively with a vital problem. Railway terminal facilities are furnished by the carriers individually, port facilities in part by municipalities interested in promoting the flow of commerce through particular ports and in part by carriers which have sought to capitalize early appearance or which have found economical access to the waterfront denied otherwise. Difficulty in terminals and in ports is the consequence generally of two faults, excessive individualism and the lack of any comprehensive plan. Railways which possess terminals strategically valuable because of location or of peculiar adaptability, have regarded those terminals as weapons to be used to maximum advantage in competition for traffic; often, therefore, the power arising from their possession is used to the injury of the shipping public as well as to the disadvantage of rival lines. The location of existing terminals, once properly situated perhaps, frequently makes it impossible, physically or financially—even both, to expand with the growth of traffic, while competitive terminals often so hedge a given district about as to impede seriously the development of any city plan. Yet re-location of terminals is regarded with trepidation under a highly competitive régime. For these difficulties there is no panacea, but greater co-operation among the railways—even to the extent of the joint ownership of terminals re-located and thoroughly modernized—promises material improvement. And the shipper is quite within his rights in demand-

ing that the advantages of individual railways under the present system be not permitted to obstruct unduly the movement of traffic, as well as in asking that the preëmption of desirable sites by older lines be not permitted to deny to him a service equal to that which his competitor receives. In any conflict of rights between the shipper and private property in an enterprise "burdened with a public interest," the shipper seems entitled to the greater consideration.

But even more chaotic than the terminal situation is the situation in a typical port. The lack of a comprehensive plan in the face of the peculiar need for intelligent organization, the keen competition among various groups for water-frontage—the railways, industrial plants, commercial enterprises, shipping lines, and even governmental units—and the improper organization and utilization of trackage which lies back of the water-front have combined to create a tremendously difficult problem for those who seek to facilitate the rapid movement of goods at low cost through our ports. Here again there is no panacea, yet here, too, co-operation can accomplish much. However, the formulation of a comprehensive plan and the authorization by law of some public body with broad powers to develop that plan, are essential if order is to come even after long years. Improved terminals and properly organized ports bear importantly upon the fortunes of those engaged in foreign trade: little does the shipper gain if his goods move speedily "along the line," only to languish in terminal or port until his vessel has moved out to sea.

One further consideration remains which touches adequacy of service. As the volume of foreign trade increases, the establishment by our railways of a supplementary ocean service such as is maintained by the two great Canadian

systems, will be suggested. By such a service closer co-ordination between rail and water movements is possible and by it control of shipments can be earlier secured and longer retained. Such a service might develop upon a competitive basis or it may result from the co-operative action of carriers seeking mutual gain through regional or port development. However, the break with the tradition of the past and the keen rivalry among shipping lines, with their eagerness for new business, make such a development unlikely on a large scale under present conditions.

No less important to those interested in foreign markets than adequate service is continuous service. Breaks in the continuity of service may result from the inability of the carrier to handle goods offered for shipment or from the refusal of the carriers to serve upon the terms accorded by regulative bodies; but the first, an embargo, is a service problem and the second situation is so improbable as to be ignored. Cessations in service may also follow the refusal of those who man our railways to continue at their posts—and this is a danger to which the shipping public has been exposed on a broad scale during recent years. Industrial relations long occupied small place in the public mind, though the American people realized at a comparatively early date that struggles between the railways and their employes were not "private fights." Legislative action was first taken in 1888 but, one after another, measures which have sought to establish a plan for the peaceful composition of disputes have been discarded. In the Transportation Act were embodied provisions which gave recognition to the tripartite character of the problem and, under it, machinery was provided that should have operated with considerable success. Yet, because of certain inadequacies in the law itself, because

of the abnormal situation faced by the Board created under the Act, and because of the inexcusable stubbornness and self-will of certain groups of carriers and of workers, there has been substituted quite recently another plan. "The proof of the pudding is the eating," and the writer hopes the new scheme will be a delight to all, but there seems to be so little of promise behind or within the present law that it is difficult to see in it "the dawn of a new industrial day." It is not unlikely that the problem of continuous service may demand thought and improved machinery within a too-brief time.

FACTORS IN LOW RAILWAY RATES

Though an adequate and continuous rail service is essential to the development of foreign trade, opportunity to participate in that trade is dependent upon costs. The level of railway rates upon raw materials and finished goods is, therefore, a matter of concern and this is increasingly true as competition grows keen. Capable of contributing to the establishment or the maintenance of a reasonable level of rates are numerous factors. The consolidation of railways may aid to this end, though it is quite easy to exaggerate the savings which will result from the further unification of railway properties. Offering greater opportunities for the reduction of costs is an increase in efficiency. That railway management is alert to the possibilities here is clearly evidenced by the progress made within recent years: in the face of stationary rates and gradually rising prices, the financial position of the carriers has steadily improved. However, even greater efficiency must be attained—though conspicuous progress can result only from the better co-operation of the employee group. If railway labor develops a sense of public responsibility as rapidly during the next decade as has manage-

ment in the past decade, many economies can be effected and many improvements in service made to the obvious gain of the public, the carriers, and the co-operating labor groups.

A reasonable assurance of the continuance of a fair return upon railway investments will also contribute to minimum long-time rates. Such assurance will make obtainable upon more reasonable terms funds needed for the development of the railway plant and this development will permit the carriers to escape the operation of the law of decreasing returns. The opportunity for great speculative gains in the railway field disappeared with the frontier and with the advent of regulation. Henceforth, funds drawn into railway channels must be lured by safety or by a high current return. And, in the end, a reasonable assurance of safety exacts from the public a lesser price.

Another factor capable of contributing materially to a low level of railway rates is improved terminal and port operation. Better organization at these vital points, with the diversion of traffic to those terminals and ports which enjoy low costs because of efficiency or location or volume of business, should yield considerable savings. There exists, it is true, a certain skepticism regarding, if not antagonism toward, the use of cost as an important factor in rate determination, yet with respect to terminal and port operations, costs could be ascertained with reasonable accuracy and applied with some rigor. No city or port, no carrier, no shipper, can justly ask that certain movements be burdened to permit the subsidization of others. No other plan would stimulate the reorganization and efficient direction of properties more surely, no other plan accomplish a redistribution of tonnage among cities, among carriers, and among ports upon the basis of total economic cost

more speedily. And to such a redistribution the shipping public and the advantageously located carriers and cities or ports are clearly entitled.

One point remains to be made with regard to reasonable rates, and that point has to do with the method of rate-making. Few are concerned more vitally with the rate than he who pays it, yet railway traffic officials have long and stoutly held that the field of rate-making is hallowed ground which none but they may tread—that the making of rates is a mystery beyond the shipper's ken. In support of the "star-chamber" method of rate-making as against the determination of rates by conference and by arbitration, certain arguments may be adduced, but, however sound this plan may be when applied to domestic rates, it seems indefensible in the determination of export rates. For here factors wholly beyond the knowledge of the traffic officer bear importantly upon the ability of the tonnage to pay. Such rates might well be fixed by definitely organized conference groups, subject to revision by public authority if shown to be non-compensatory or unduly discriminatory in character.

DISCRIMINATION

The requirement that common carriers serve without undue discrimination, raises problems of a diverse character when applied to foreign commerce. Only the desire to curtail entry into distant markets would justify export rates in excess of those assessed against domestic traffic. But what of *lower* rates upon tonnage moving in foreign trade? Obviously, the principle which should normally govern is that of equality of treatment: every type of traffic ought, in theory, to contribute its due portion to both the constant and variable costs of railway operation. Yet this principle is not always

applicable to domestic traffic and its application to export tonnage might easily serve as an important obstacle to the development of trade. This is particularly true of those commodities with respect to which competition is very keen and transportation costs a significant factor. Insofar as conditions permit, export rates should be maintained upon an equality with domestic rates, but there would seem to be no bar in equity to lower rates on export shipments so long as out-of-pocket costs were covered and some slight contribution made to general expenses. Yet such departures ought to be permitted only upon a good and sufficient showing of need and absence of public prejudice.

A second problem in discrimination appears in port differentials. This is an old question and a perennial one, particularly familiar because of the struggle for advantage—or parity—among the North Atlantic ports. The demand for a favorable differential rests generally upon lesser distance or disadvantaged situation; through the differential a larger share of the tonnage than would otherwise be obtained, is sought. Such controversies may be settled by test of strength or by compromise, usually the latter, and upon the principle in foreign trade of a combined rail-and-water rate which is the same via all ports. Aside from the differentials governing among the North Atlantic ports, relationships have been established between and among other ports and groups of ports such as those facing the South Atlantic and the Gulf. In the determination of differentials, however, bargaining power and equalization have been the important determinants, not transportation costs. Should cost studies be made and a readjustment of differentials rested upon such cost data, a considerable modification might be made in the channels

of traffic. Yet it is doubtful if differentials based upon costs could rightly be regarded as discriminatory in character.

A final problem of discrimination, and one which involves the railways quite incidentally, appears in Section 28 of the Jones Merchant Marine Act. The direct subsidization of American shipping has been urged from time to time but the weight of public opinion has been consistently adverse to that type of aid. However, when Congress was confronted with the problem of finding tonnage for our large merchant marine after the war, a provision was embodied in the law which departed strikingly from past practice. This provision denies to shipments entering or leaving the United States the privilege of moving upon the joint rail-and-water rates except as those shipments move in American bottoms—though the U. S. Shipping Board may cause the suspension of the section by certifying to the Interstate Commerce Commission that the service offered by American lines is inadequate. Goods moving in foreign bottoms would thus pay a higher rail rate where the joint through rate is less than the sum of the domestic rail and the water rates applicable. However, because of complaint from American commercial interests, Section 28 has not yet been applied, the one attempt causing vigorous protest. Its application would prejudice the rapid movement of shipments, it is urged, and react to the marked disadvantage of certain ports except as American shipping service is

improved and as domestic rail rates to ports are equalized. But this equalization cannot be effected without disrupting rate relationships of long standing and twisting entire rate structures. So it appears that this method of aiding American shipping threatens greater injury to shipper, to carrier, and to prejudiced port than it promises gain to our merchant marine. Railway rate problems are sufficiently difficult without asking the carriers to drag others' chestnuts from the fire. Section 28, it seems, merits elimination from the law.

In the past the railways have served the interests of American foreign trade normally and well. In the period which lies ahead, however, the problem of the exporter promises to be a more difficult one. Success will require the close and effective co-operation of all agencies concerned with the productive process. Important aid must be rendered the trader by the railways, among others, if they are not to be the losers both in tonnage and in good will. To that end the carriers should jointly make a careful study of the entire problem and, having accomplished all that they alone find it possible to accomplish, stand ready to co-operate in fullest measure with other agencies such as port authorities, exporting groups, and shipping lines. It is through ready and effective co-operation that maximum results will be attained, rather than through governmental prescription of policies and of detail.

The Effect of Port Improvement and Inland Water Highway Development on Future Markets

By WALTER PARKER

Executive Vice-President, National Flood Prevention & River Regulation Commission; Vice-President, Mississippi Valley Association; President, Lakes to Gulf Highway Association; Chairman, United States Section, Costa Rican Group, Pan-American Financial Conference

WHETHER we call it economic necessity, growing pains, or seeing beyond the near horizon, the fact remains that the interior or inland districts are now in open revolt against the lethargy shown by the Federal Congress toward the larger economic problems of the country.

The "farm bloc" so frequently referred to is really not a farm bloc at all, but a number of independent groups of manufacturers, shippers, producers and people generally throughout the Mississippi Valley who have found it necessary to fight for their economic freedom and who have come together, subconsciously, perhaps, but nevertheless effectively, seeking a common goal.

That goal is the use of the water resources of the nation for beneficial purposes, in place of waste as destructive floods. The carrying out of such a policy, according to the leaders throughout the Valley, will mean the control of flood run-off, the conservation and use of now wasted water for irrigation in aid of agriculture, for power in aid of industry, for streamflow regulation in aid of navigation, for flood control in aid of general development, and for the checking of soil erosion, out of which will come a solution of several pressing problems of larger importance, such as:

(1) Increased farm production at decreased cost.

(2) A readjustment of freight rates between midwest concentration points and shipside on a more favorable basis than now exists.

(3) Lower cost power and transportation for industry.

(4) Reduced danger from floods, which will permit the fertile lowlands to develop an increased purchasing power.

(5) Easier and less costly interchange between domestic and foreign transportation.

(6) Finally, the carrying out of such a policy and plan will mean the location of industry on the banks of navigable streams, in close juxtaposition to raw material and food supplies, with water power near, and with easy, low cost access to the new markets of great promise in Latin-America. Such a combination is expected to create a new economic margin, over and above normal profits, which can be used to offset the low wage scale of Europe in competing for world markets for America's surplus.

This movement for economic freedom has caught the imagination of the people of the Mississippi Valley as nothing has ever done before. Men who make a business of discounting the future are taking it seriously.

Recently Fenner and Beane, New York and New Orleans brokers, issued a bulletin under the title, "Philosophy of Empire Building—How and Why Business Grows," which shows how this movement has developed within a few years. The bulletin reads:

In the very recent past the population of the United States has increased ten millions. The buying power of these ten million peo-

ple is now greater than is the buying power of all Canada.

Last year, the wealth of the United States increased by about fifty billions of dollars, and is now somewhere around 400 billions.

Such growth is incomprehensible to most people.

It is made possible, first, by natural resources. Next, by the ability of the people of the United States to quickly adjust themselves to new conditions in order to take advantage of new opportunities.

The revolt of the Mid-West against the economic lethargy shown by Congress arises from the fact that the business genius of the people is being handicapped by lack of vision and action by the Washington government.

The growth in population and business of New York, Chicago, San Francisco, St. Louis, New Orleans, is simply accepted by the people. But the magnitude of the underlying structure and the economic force that structure is developing cannot be visualized by the average man.

A single illustration will serve:

Chattanooga, an industrial city near the coal and iron mines, on the Upper Tennessee River, reports a present-day population of 97,000, a gain of 300 per cent in a single generation, and bank clearings of 400 millions, a gain of one thousand per cent in the same period. Chattanooga has growing pains. Its economic environment is becoming cramped.

The Tennessee River is a wide, deep, navigable stream. Boats ply on it locally.

But at Muscle Shoals there is an obstruction. Boats from Chattanooga cannot reach the Ohio and the Mississippi. Consequently, Chattanooga, which manufactures for export, is denied the advantage of inland waterway connection with shipside on the Gulf.

Nearly ten years ago the Government began work on the Muscle Shoals Project, to make the Tennessee navigable and to create low cost water power.

To date, the Government has put about 100 millions of the tax payers' money into Muscle Shoals. The project is not yet complete—the Tennessee is not yet navigable, and the Government does not yet know when the project will be completed, who

will finally operate it, or whose larger interests it will serve.

Quite naturally, Chattanooga is peeved and disappointed, and looks about for help for the solution of its pressing economic problem.

It finds local allies at Knoxville, Florence and the like, and region-wide allies in the Mississippi Valley.

The entire Ohio Valley is peeved because the federal Ohio lock and dam system, begun in 1879, is not yet completed.

The Missouri River section is up in arms because of uncontrolled floods and non-navigable rivers.

The Lower Mississippi is pressing Congress for emergency flood control works.

The Mississippi Valley Association has mobilized the strength of some 400 local chambers of commerce behind constructive waterway legislation.

Nationally, Chattanooga finds business generators generally urging an economic readjustment through flood control and river regulation, which will broaden their markets.

There is plenty of help near at hand in behalf of a national policy under which the water resources of the country, including the Tennessee, will be used for beneficial purposes instead of being wasted as destructive floods.

And so Chattanooga's battles are fought for it at Washington.

Many other trade and industrial centers, agricultural sections and the like, particularly in the Great Valley, are suffering from growing pains. So many in fact, that when the United States Senate was told in June, 1926, that it must not adjourn because the Rivers and Harbors Bill had not been acted on, it did not adjourn, and finally succeeded in adjourning only after it had agreed to give the Rivers and Harbors Bill right of way over all other legislation at the December session.

Region-wide concert of action has replaced local isolated endeavor. This is but another evidence of the ability of the country to adjust itself to conditions, when occasion requires, to meet the needs arising from population and wealth increases on a ratio never known elsewhere in the history of the world.

That ability is the best evidence that the business of the country will continue to thrive and expand, and that alert men will continue to find profitable employment in discounting the future.

PROBLEM OF INCREASED COSTS

There is no lack of business anywhere, but everywhere the complaint ultimately focuses on one point—the high cost of doing business.

First of all, the people of the United States now pay in Federal, state and local taxes something more than eleven and a half billion dollars, or about \$100 per capita. Eight dollars deducted from the earnings of each and every individual each and every month!

Immigration has been cut off.

Farm labor comes high.

Some farmers are producing staple crops on lands worth in the open market \$500 an acre. There are no available free virgin lands left.

The manufactured articles required by the farmer are tariff-protected from competition by cheap labor in Europe.

The Panama Canal has made the low cost route between the coasts the water route. The mid-western farmers and the Ohio Valley manufacturers, in terms of freight rates, are now at the end of every haul. Formerly, when the rails alone crossed the continent, they were in the middle and could move their product either way with equal ease.

Anyway, the railroads must pay twice as much for a track worker as formerly, and must sell their services accordingly.

The concentration points fare similarly. Costs of doing business have multiplied. Their charges are higher.

The trade centers pay more for carfare, for food, for service of every kind, and this higher cost, wherever possible, is passed on to the interior.

At the ports an even more serious

situation arises. Prohibition has taken a heavy toll from port municipal revenues. This loss must be made up by heavier direct taxes on merchants and property owners. Dock labor costs more. At a certain Gulf port, when private enterprise was turning surplus labor away, the Shipping Board, out of a clear sky, raised the wage of dock labor serving Shipping Board vessels by thirty-three and a third per cent. Draying and lightering cost more than in the good old days before the war. And so on down the line.

Meanwhile, the monster impetus given industry by the war hastened by many years the change of status of the United States from a producer and seller of raw material to a producer of the finished articles of commerce, requiring therefor greatly expanded overseas markets.

This change of status changes everything.

No longer is America willingly the forest, field and mine for the industrial populations of Western Europe.

Instead, she desires to sell tables and chairs from her forest products, flour and cloth from the products of her fields, and steel forms and engines from her metals.

Because Western Europe must find employment for its own industrial populations it does not willingly take the finished articles of commerce from us. Anyway, since we have all the gold, and maintain a high tariff wall, Europe lacks the wherewithal to buy.

And so, in the more or less natural order of things, America is faced with the problem of developing new markets of great promise for the new character of commerce being generated.

Near at hand, ready and waiting, there is Latin-America. It has every climate, every character of soil, abundant minerals, monster untouched

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forests, navigable channels penetrating far into the interior.

There, the overflow populations of Western Europe are more than welcome. Virgin free lands are open to them.

Contrasted with natural resources, Latin-America's total public debt is inconsequential.

Latin-America will need money, window panes, needles, automobiles, plows, roofing material—practically the whole range of human requirements.

It has meat and minerals, timber and rubber, coffee and hides to sell in exchange.

It needs railroads, and highways, docks and warehouses, engineers and doctors.

An ideal situation, basically, for reciprocal trade between the United States and the remainder of the New World!

But—America, with high internal costs, must find a way to compete permanently with Europe, where wages and costs of living are lower.

American business genius has developed mass production. Europe is coming to that.

Europe has developed combinations for foreign trade promotion. America is coming to that.

Europe uses its inland waterways. America will do that.

Europe applies the results of scientific study to the development of foreign trade. America is beginning to do that, too.

America has capital and raw material.

At the moment Latin-America's business with the United States is increasing more rapidly than is Latin-America's business with Europe. Europe's economic comeback may change this unless America puts her economic house in order in the meantime.

MAKING A NEW ECONOMIC ENVIRONMENT

So long as American wealth continues to increase at the present rate, neither labor nor the railroads would be content with less income.

Nevertheless, students of economy are of the opinion that there is a practical way to radically lower American costs of production and distribution without lowering wages or materially lowering railroad rates.

The steps they recommend, in the order of their importance, are as follows:

(1) Improved port economy and more efficient and lower cost port service.

(2) Development and use for the movement of commerce of the inland waterways of the country.

(3) The use for beneficial purposes in place of waste of surplus interstate drainage.

(4) A subsidized American merchant marine, wholly in the hands of private enterprise and operated under laws at least as favorable as those of competing countries.

(5) Ample appropriations for the Federal Bureau of Foreign and Domestic Commerce, and adequate salaries for foreign trade attachés of the highest type capable of being produced by America.

The carrying out of these recommendations will mean fully co-ordinated service at strategically located ports with facilities operated by both private enterprise and by the public, the first enjoying full economic freedom, the latter in position to supplement private enterprise in any way the port may require and to serve transportation lines which for any reason may not care to make permanent investment in facilities. This plan is being carried out by Mobile on the Gulf. Water

front warehouses serving all transportation lines equally well will permit low cost concentration and handling in and out between periods of production and consumption at more strategic points than are now as a rule used.

River regulation—impounding water in the mountains for power, irrigation and streamflow control; soaking more water into the ground through contour plowing on the farms; the checking of soil erosion, and finally, flood control and the reduction of the annual flood menace to the fertile lowlands will create a new and as yet undiscounted economic margin—a margin of profit over and above normal profits—for agriculture, industry and commerce. In the case of the Mississippi Valley, which produces between eighty and ninety per cent of the raw materials underlying the industry and commerce of the country—food, coal, oil, minerals, power, etc.—it is contemplated that industry will locate on the banks of the navigable waterways in close juxtaposition to supplies of raw material and food, low cost transportation and power, enjoying direct access to Latin-America, both for the export of finished merchandise and for the import of raw material.

Farm relief of a permanent character would come from irrigation, water power, inland navigation, reduced soil erosion, and safety from floods, the combined benefits of which would lower the cost of agricultural production and distribution.

Some overseas delivery wagons, controlled by America, are essential to the larger welfare of American foreign trade. American ships, unaided, cannot long compete on the high seas when handicapped there by the high costs prevailing within the three-mile limit and by restrictive laws and regulations. Given an equal chance with foreign lines, American business genius can

solve the remainder of the problems.

Tens of millions spent annually for foreign trade development by the United States will pay mighty big dividends. Foreign trade attachés should be specially educated and trained not only in the languages and the science of commerce, but in the life, habits and psychology of the people among whom they are to work.

Two incidents will illustrate this need. A South American merchant ordered dry goods from the United States but wanted no mourning colors included. The clerk never heard of any mourning color save black. He loaded the order with purples. Purple is the mourning color of that country.

A Mexican spinner ordered round bales of cotton. The exporter never inquired why. One year there were no round bales, and square bales were sent. A mighty howl of protest came back from the Mexican spinner because his mill was 200 miles back in the mountains, with pack mules as the only transport. Round bales weigh 250 pounds. Square bales weigh 500 pounds. The mule could pack only 250 pounds.

The American exporter will need dependable, sound advice until his knowledge of other peoples and other lands at least equals that of the European world trader.

The effect of port improvement and inland water highway development going hand in hand with a remade economic environment, resulting from the use for beneficial purposes in place of waste of surplus interstate flood drainage, will undoubtedly be an enormously augmented ability by the United States to sell abroad in competition with Europe, and an extension of the life of easy living within the United States by many generations.

To this end several carefully organized movements are under way.

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The Mississippi Valley Association, behind which stand 400 Mississippi Valley chambers of commerce, is leading the movement for the early completion of the system of inland navigable channels between the Rockies, Canada, the Appalachians and the Gulf.

The National Flood Prevention and River Regulation Commission, behind which stand not only the chambers of commerce but many manufacturers and merchants as well—business men who desire the benefits of larger domestic markets resulting from the larger buying power a remade economic environment will produce—is developing a country-wide demand for a national policy calling for the use for beneficial purposes of the surplus flood drainage in place of its waste in destructive floods, and under which Federal, state and local governments and private enterprise may co-operate in an orderly way for the carrying out of definite plans to that end.

PORT POLICY A FACTOR

From the beginning, business enterprise has enjoyed free play and full economic freedom on the water front at New York.

Monster tax-paying terminals have been built with private capital. The managers of such terminals have sent solicitors wherever commerce is generated, seeking business. New York's trade has prospered to the point where congestion of the water front and high costs of property handicap the coming of new water front enterprises.

To correct this condition, some new water frontage, publicly owned, is being and is to be created. The announced policy of the New York Port Authority is that such publicly owned frontage will be leased to business enterprise, and that none will be operated by the public in competition with business enterprise.

From the beginning the public has owned all the water frontage at New Orleans. Many miles of water frontage are yet unoccupied there. Private commercial enterprise cannot purchase or lease water frontage there as it can in New York, with full economic freedom. New Orleans' publicly owned harbor front facilities were built with five per cent money, they pay no taxes, and are open to use by all comers upon the payment of the established fees. The Port Authority is expected to supply facilities to meet all the demands made on the port.

Mobile is developing a system which combines both the New York and the New Orleans systems. It is creating some extensive state-owned port facilities which will be operated by a public board. Any ship or boat so desiring may use these facilities by paying the established fees. Meanwhile, the ownership of all the remainder of the harbor frontage at Mobile continues in private hands and business-owned commercial facilities may be developed there with full economic freedom.

An economist has said: "Business enterprise has too much freedom at New York, and not enough at New Orleans. Mobile, in the end, may point the way for both."

Port policy will play a large part in the development of Latin-American commerce with the United States, particularly in the matter of raw materials passing from Latin-America to the United States.

These materials are now concentrated at the Latin-American ports where interest rates are high. In the case of such commodities as coffee, there is not adequate facility in the Latin ports for economically taking up the slack between the periods of production and consumption, the latter extending over a period of a year.

Port economists feel that facilities

will need to be provided at the United States ports serving the Latin-American trade where the raw materials, whenever the producers are ready to ship, may pass from the Latin countries into low cost storage, there to remain until required by United States consumers, meanwhile enjoying the benefits of low rated money, and the opportunity for quick distribution to any North American manufacturing center. In such an arrangement they see an advantage over the carrying in Latin-American ports of such commodities as will ultimately be needed in the United States.

The same would be true of certain

exports from the United States—cotton as an illustration. Such a commodity concentrated at a convenient United States port, and held until required abroad rather than held for long periods at, say, Liverpool, or Havre, or Bremen, could be resold at any time to any consuming center, because no ocean freight charge has been paid, meanwhile enjoying such advantages as the relative economic ease of the United States can give it.

Whether such service can best be developed under the port system of New York, or that of New Orleans, or under the composite system of Mobile, remains to be seen.

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American Transportation Insurance Facilities in Foreign Countries

By S. S. HUEBNER, PH.D.

Professor of Insurance and Commerce, University of Pennsylvania

MARINE insurance, or "transportation insurance" as it should more appropriately be called, is multiple-line in its coverage. Its protection extends not merely to the carrier as regards all the numerous perils that endanger the same, but also to goods against nearly every possible transportation hazard from the time they leave the shipper's warehouse in the interior of one country, through all the various stages of the journey either by water or land, until delivered safely into the warehouse of the foreign consignee. Similarly, protection is also extended to the allied interests of "freight," "charges incurred," "profits," and "commissions." In the last analysis, marine insurance serves as a body-guard to commerce in that it guarantees commercial credit, and, by giving security of mind to owners and creditors through the creation of certainty out of uncertain conditions, enables commercial ventures to be conducted on a non-speculative basis, i. e. at a certain, normal and reasonable profit per unit of service. An equally great service of marine insurance is the promotion of efficient operation through the standardization of risks, the improvement of packing and shipping methods, the periodic inspection of vessels, and the elimination in other ways of unnecessary waste or loss in the first instance.

MARINE INSURANCE AS A NATIONAL COMMERCIAL WEAPON

But the service of marine insurance extends beyond the protection of

property and credit and the avoidance of unnecessary waste. These are functions that are common to all types of insurance. From the standpoint of this article we should rather focus our attention upon the strategic place of marine insurance in a national program for the promotion of international trade. For years marine insurance has been regarded by our leading competitors as a national commercial weapon to be used effectively in fostering a merchant marine and in acquiring and controlling important channels of trade. William W. Bates recognized this strategic importance of marine insurance years ago when he wrote in his volume on *The American Marine*: "Of the active forces which influence, control, or forbid the employment of shipping, none has greater effect than the marine insurance power." Expression has often been given to the thought that banking, shipping and insurance constitute the triumvirate that must be united into one co-operative force in the interest of adequate service and a united action to meet competitive situations as they arise. Each can further the interests of the others by co-operatively giving to their own nationals, at least in large part, the accompanying services—be they banking, shipping or insurance—attaching to such lines of trade as it may have under its control. Such has been the definite policy of some of our chief competitors. The three services mentioned are the three outstanding commercial weapons that consistently lend themselves,

in times of peace, to the use of nations in their keen rivalry for the acquisition and continued control of channels of trade. It is in this respect that the importance of marine insurance, as compared with fire and other forms of property insurance, can by no means be measured by the volume of premiums collected or the amount of property insured.

When properly correlated with banking and shipping, marine insurance aids powerfully in the preëmpting of leading lines of trade and in the holding of the same after they have once been acquired. By building up a large and strong national marine insurance institution at home, and then spreading its insurance agencies adequately throughout the commercial world, a nation affords to its own merchants and vessel owners everywhere a continuous insurance market with sufficient and prompt underwriting facilities near at hand. The importance of this cannot be overestimated. Speed in negotiations is the very essence of success in modern international commercial transactions. Costly delays and unfavorable rates are avoided by any nation through the wide spread of its insurance agencies into foreign countries, and the matter is important because of the smallness of the margin of profit usually associated with modern competition in international trade.

Operation in many countries also proves highly advantageous to underwriters themselves in that it gives them a proper diversity of hazard. If American marine insurance is ever to rest on a solid foundation, it must secure the advantages of an international spread of business, *i.e.* must participate in many trades and in many countries. Only by securing the benefits of a broad average experience can the business be placed

beyond the risk connected with reliance upon the fortune or misfortune of a single market. By spreading extensively into many countries, British marine underwriters, besides serving British commerce better, enhance their financial strength and competitive power because loss in one market is apt to be counter-balanced by profit in some other market.

In the regular conduct of their daily business, underwriting interests also necessarily become thoroughly acquainted with the facts connected with their insurance accounts, *i.e.* those surrounding consignors, consignees, carriers used, financial affiliations, prices obtained, credit and other contract terms, and methods of doing business. And knowledge is power in competitive trade. Sufficient underwriting capacity, therefore, free from foreign control, is also essential to the proper safeguarding of commercial information.

Moreover, the marine insurance market is itself a world market, inherently highly competitive. The service is purchased wherever it can be obtained most cheaply. It by no means follows the flag unless the rates are such as to meet the world market. No other course can well be defended. An increase in premiums, as compared with the world market rate, produces the same adverse effect as an increase in interest rates when competition is keen and the margin of profit small. The size of the rate, assuming the service to be the same, is the very heart of effective marine insurance. Yet this factor is conditioned upon a flourishing marine insurance institution at home and this, in turn, is basic to an adequate distribution of the service agencies into foreign countries. But it is right here that this country faces its greatest marine insurance obstacle. The real problem

of American marine insurance, both at home and abroad, is to overcome an adverse cost differential in order to meet the rates of foreign competitors. Unless this can be substantially accomplished, little can be hoped for the United States as one of the dominant marine insurance powers. As I have had occasion to state elsewhere¹:

Marine insurance rates are subject to foreign undercutting, and excessive taxes and other legislative burdens cannot, as in the case of fire insurance, be shifted to the buyers of insurance if they are free to seek the cheaper foreign market. American underwriters are obliged to absorb such burdens themselves. They are not free to demand a premium which will include any taxes and other legislative burdens that may be imposed and still provide a reasonable underwriting profit. They cannot shift the charges to the consumer because their rates cannot be raised to a level in excess of those charged by their more favored foreign competitors. The recent marine insurance investigation clearly demonstrated how merchants and vessel owners, obliged to meet international competition in the world's markets, emphasized the importance of being allowed to place their insurance in the foreign market if that is cheapest. Moreover, many commercial transactions present so small a margin of profit that the size of the insurance premium will determine whether the venture can be undertaken or not.

A small difference in the rate, adverse to our own underwriters, will direct the flow of marine insurance to the foreign market. This is quite natural, and it avails us little to argue that American merchants and vessel owners have not, as a general rule, patronized home companies in the same way that foreigners

have supported the underwriters of their own country, and that they have looked merely at the cost of marine insurance and have regarded it as a mere commodity rather than as a national service. To the individual shipper or vessel owner the purchase of marine insurance is a strictly business proposition. Competition in international commerce, involving the close figuring of narrow margins of profit, makes necessary close figuring in the cost of marine insurance. And even where profit margins are not small, it is only natural that business men should want to effect all possible saving in their marine insurance bills. The cost of insurance, as between our own and foreign markets, is the crucial question for solution in any attempt to establish a vigorous and lasting national marine insurance institution.

At present the American cost is admittedly higher than that of our leading competitors. A large share of this adverse cost differential is attributable to natural business reasons, such as the advantages resulting from a well organized world market of long development, a broader spread of business and broader reinsurance facilities, a close union with banking and shipping interests, and a lower cost of operation due to the somewhat lower foreign standard of salaries and office expenses. But a very substantial share of the unfavorable cost differential is due to artificial and needless barriers of our own making. . . .

Nothing should be left undone which will legitimately attract new capital into the marine insurance business or will encourage the capital already invested to attempt greater things. But capital refuses to flow into a losing business. During the Senate and House investigations of marine insurance, the following proposition was often advanced: The United States is the richest country in the world, while our competitors have been rendered poor by the war. Why then should not the United States be able to take care of itself in the field of marine insurance? The answer is: Abundance of investment capital is by no means the only criterion. Capital acts only when a profit, actual or prospective, is in sight, which is commen-

¹Report on *Legislative Obstacles to the Development of Marine Insurance in the United States*, by S. S. Huebner, Washington, 1920, 11. The reader is also referred to my other government report on *The Status of Marine Insurance in the United States*, 1920, for a discussion of the limited extent of our marine insurance facilities as compared with other leading competitive nations.

surate with the return obtainable along other lines of business. Thus far this has not been the case in American marine insurance. The business must be placed on a profitable basis; if so, capital will readily assert itself.

LIMITED EXTENT OF U. S. INSURANCE FACILITIES ABROAD AND REASONS

Considerations like the above call for the development of a strong national marine insurance business both at home and in foreign countries. In fact the same reasons that make a national merchant marine desirable also urge the simultaneous creation of adequate national transportation insurance facilities. Yet such a national viewpoint has scarcely been given a thought. On the one hand, the Congressional investigation of marine insurance in 1920 showed that at that date fully two-thirds of all the marine insurance originating in the United States was controlled by foreign underwriters, and that between a fourth and a fifth of all such insurance was exported directly to the foreign market without appearing in any of the official records on this side. Moreover, as shown by this investigation, American marine insurance companies "rarely sought licenses prior to the war in foreign fields with the exception of Canada and Cuba. Only two companies were reported as doing business in England, one each in France, Mexico, Australia and China, and none in such important countries as the Argentine and Chili." Some improvement has been effected since, especially through the worthy efforts of the American Foreign Insurance Association, but comprehensive data are not available to indicate the full extent of the change. Certain it is that the movement is only in its infancy and that the results to date fall far short of the real requirements of American commercial interests abroad.

The reasons for the existing situation

are not far to seek. The marine insurance business in the United States is laboring under an adverse cost differential and the handicap is largely attributable to our own folly, i.e. artificial restrictions of our own making. Insurance is under the control of the several states and they have scarcely given a thought to the national good in insurance matters. Their viewpoint, instead, has been a provincial one, and with disastrous results. As stated in the report, summarizing the findings of the recent Congressional investigation of marine insurance²:

An examination of State insurance statutes shows that in nearly all instances marine insurance is regulated by the same law that applies to fire insurance. Marine insurance seems to have been regarded as more or less of an incident, and has thus had the misfortune of sharing an unmerited fate by being grouped inadvertently, for legislative purposes, with its larger companion, without any real consideration of the vital differences between the two. Two outstanding facts present themselves on every hand, viz., the utter lack of uniformity and the total absence of any clear-cut economic policy, unless it be the convenient collection of the maximum amount of revenue. In fact, there is an almost total absence of specific marine insurance legislation, although a survey shows that the States have seen fit to legislate specifically with reference to life, accident, health, compensation and surety insurance. The more one studies the vast number of State laws applying to marine insurance the more one is forced to the conclusion that local legislative requirements were shaped by local needs without regard to the national interest in world shipping and trade. The basic trouble is found in our dual system of Government—a Nation of States, each actuated by its own local needs and views in insurance matters without much reference to the national good. With

²Report on *Legislative Obstacles to the Development of Marine Insurance in the United States*, pp. 8 and 9.

forty-eight architects at work, each acting independently of the others and without regard to the needs of world commerce, it is small wonder that the structure of marine insurance legislation is lacking in many vital respects and that there has resulted a setting-up, as a former insurance superintendent of New York recently declared, "of large hurdles in the way of our companies' progress."

REMEDIAL MEASURES

Beyond question, existing state laws give advantage to our foreign competitors, and run counter to the national welfare. American companies are taxed on their premium income, whereas the companies of leading competing nations are taxed on net profits. The difference between the two methods is the difference between wrong and right. Premium taxation fails to take cognizance of the fact that a premium collected may nevertheless result in a loss. Aside from the unjust character of premium taxation, an examination of state tax laws, applicable to marine insurance, will impress one with the extraordinary magnitude of the amount collected.

Nearly all our states require fire, marine, and fire-marine companies to limit their underwriting to these two forms of insurance. British companies, on the contrary, have the privilege of writing numerous kinds of insurance, thus materially reducing overhead charges, enabling the companies to secure the support of foreign business concerns by meeting their full insurance requirements, and enhancing the financial stability of companies since various forms of insurance complement one another, so that bad results in one branch are apt to be counterbalanced by good results in some other branch.

The absence of sufficient reinsurance facilities has also been one of the great handicaps to American companies and has been responsible for the fact that a large proportion of our marine insur-

ance has passed under the control of foreign interests by way of reinsurance with comparatively little reciprocity in this respect from foreign underwriters. Yet numerous states prohibit the reinsurance of risks written within their borders in any but admitted companies, and these may be very limited in number. Even where reinsurance may be ceded to non-admitted companies, there is a refusal of credit to the ceding company for reduction of taxes, or of reserve or other liabilities.

Existing state legislation overlooks the internationally competitive nature of the marine insurance business. When considered collectively, the aforementioned artificial handicaps add greatly to the cost and inconvenience of doing business, and thus increase the adverse cost differential under which American companies have been laboring. These artificial restrictions should be eliminated as quickly as possible. Congress gave expression to this wish in the Marine Insurance Law of March 4, 1922, which provides for net profits taxation only, permits multiple-line insurance both at home and abroad, authorizes convenient reinsurance, consistent with sane solvency requirements and irrespective of state boundary lines, and arranges for the convenient establishment of underwriting connections in foreign countries through stock ownership or the organization of special companies for the purpose. The scope of that law is of course limited to the District of Columbia. Control over insurance, as already stated, lies with the several states. The motive of Congress in passing the law was to set up a model for adoption by our maritime states. It is through such general adoption that the marine insurance business of the country may be enabled to become strong and independent at home, as well as serviceable to our commercial interests in foreign countries.

Advertising for Export Trade

By DUDLEY BARTLETT

Chief, Foreign Trade Bureau, Philadelphia Commercial Museum

NEARLY all writers of the many books on export trade methods lay stress on the alleged fact that there is practically no difference between export and domestic business. Olney Hough, the writer of one of the first and perhaps the best work on the subject, begins by quoting Alba B. Johnson, formerly President of the Baldwin Locomotive Works, who expresses the belief that there is no essential difference between increasing business in St. Louis and increasing it in Rio or Buenos Aires. It is interesting to note that, following this statement, there are about six hundred pages devoted to explanations of the differences and the rules to be followed in overcoming the obstacles and meeting the requirements of export business. Although Mr. Johnson's statement is true, the six hundred pages of instructions necessary to a complete understanding of the methods to be followed and the pitfalls to be avoided in the development of a safe and sound paying business with countries other than our own, are not superfluous.

Outstanding among authors dealing with subjects connected with export trade, there may be mentioned Walter F. Wyman, Ernst B. Filsinger and Archibald J. Wolfe, all of whom emphasize the same idea, each insisting that foreign trade differs only immaterially from domestic trade, but proceeding to cover many pages of paper with dissertations on the differences, whose existence they, at least partially, deny. Following such illustrious examples, I do not hesitate to suggest that, perhaps, there are good reasons for assuming that, in spite of many similarities,

advertising for export trade varies, in some essential features, from advertising for home trade.

GENERAL CONDITIONS

Advertising in the United States has been brought to a high degree of efficiency. No other country spends as much money, devotes as much thought, or employs men of as high mental attainments, in studying and devising advertising methods, as the United States. It might seem, therefore, that methods so devised, whose efficacy has been proven by actual use in this country, could be employed with equal success in others, and it is the belief of many experienced exporters that the same systems, whose value have been demonstrated in the nearby markets of the United States, can be successfully used in the more distant trade centers of Europe and many European colonies, as well as in South America, South Africa, and, in fact, wherever business is conducted on modern lines or where there exist advertising media similar to those in the United States.

In England, for instance, there are newspapers and magazines much like those with which we are familiar in this country, and there are advertising agencies which on the surface, at least, differ but little from like organizations in New York, Philadelphia, Chicago and other business centers. In most countries, the first are not as numerous nor as widely read by the great consuming public, and the second are, generally speaking, less ingenious and less progressive, while their services are usually quite as costly as

those who have raised advertising to the level of an art in America.

On the Continent, Germany and France have fewer and, with a few notable exceptions, poorer publications suitable for advertising purposes, although Germany has a number of excellent scientific and technical journals. Both these and a number of similar publications in France are, as a rule, typographically poor and printed on paper which does not permit the use of elaborate illustrations, such as we are accustomed to see in many American magazines. For many lines of merchandise there are, consequently, less opportunities for using the more elaborately designed and executed forms of illustrated advertising.

ADOPTING AN ADVERTISING POLICY

It is not my purpose, however, to dwell on this phase of the subject, nor to treat especially of advertising in those countries where there exist agencies to which the American exporting manufacturer may turn over his publicity campaign, even though such agencies, as I have intimated, are, in many respects, less efficient than similar concerns in the United States; neither shall I attempt to explain the methods successfully adopted by large and wealthy organizations which, through branch houses established abroad, are able to select media and adopt the proper methods because of their presence on the field of action.

I shall speak rather of the less highly developed countries and of the means which may be used successfully and economically by manufacturers, comparatively, or altogether, new in the export field. Their problems differ in many respects from those they have solved in the home market. Some of the differences have already been mentioned; others depend greatly on the selection of markets, their commercial

and economic conditions, the extent and character of the trading and consuming population, their preferences and national characteristics.

The system of selling and financing adopted by each exporting firm, and the nature of the articles to be sold, must also be considered in deciding upon an advertising policy. In rich or highly educated communities, certain methods may be employed which would be worse than useless in widely scattered populations of low per capita purchasing power and with a high percentage of illiteracy.

Advertising is so closely tied up to all other departments, in a manufacturing establishment marketing its own products, that no general rules can be formulated which may be applied to every branch of industry. Nevertheless, there are certain facts which must be known by all and certain rules of procedure which must be followed, before any policy of foreign publicity can be put into effective working shape.

As in domestic advertising, the chief objects of the publicity sought are to create, maintain or increase sales and to establish good will, that element in trade whose value is as often overlooked as overestimated. Too many firms, whose products have been widely advertised in this country, are slow to realize that, when entering new and distant markets, they must begin at the beginning and, in some instances, discard as useless much if not all of their costly layouts, despite the fact that they may have proven their worth in domestic selling campaigns.

Suppose a manufacturer, unacquainted with exporting or having only very inadequate knowledge of the opportunities and conditions of foreign countries, desires to adopt a plan for advertising his wares abroad.

What course shall he pursue? What facilities are available for letting the dealers and consumers of other countries know who he is, what he makes, and the quality of the articles he produces and has for sale?

AVAILABLE ADVERTISING FACILITIES

Export trade papers exist largely because of their usefulness at this stage in the process of building up a foreign business, although they are often equally useful to experienced exporting firms in opening new and untried markets, and even in maintaining their position in those in which they are already established. Printed in the United States and circulated abroad, they offer the first and easiest means of calling forth inquiries from foreign dealers and agents, and many hundreds of manufacturers have made their first connection with such business houses through their use. Primarily, they are intended for circulation among importing houses, and their appeal to consumers is, consequently, only secondary. They provide a means for reaching, quickly and economically, many thousands of reputable merchants in all quarters of the globe.

It is scarcely necessary to say that, in selecting an advertising medium of this kind, care should be exercised to see that it is honestly circulated and that, if it offers additional service in the way of advice as to the responsibility of inquiring firms, or in the selection of efficient and reliable agents, it has the proper facilities for giving such assistance. I can speak with absolute knowledge of the actual character of the firms reached by but one such publication, which circulates among carefully selected business houses actually engaged in import trade and maintains a large department devoted exclusively to service, differing in this respect from domestic

trade publications. Going, as these papers do, to dealers and not reaching the general consuming public, copy for advertisements in them needs to be prepared with special reference to that fact. The main object is to convince merchants that the article advertised is a "good seller," that it has, in itself, qualities which appeal to users and that it can be readily turned into cash. "Will it sell?" is the merchant's first question, and not, "Can I sell it?" for he is looking for articles which will, to as great an extent as possible, sell themselves, or can be sold with the least effort on his part.

It is usually unwise to give definite prices, because they are apt to be seen by the dealers' customers or their competitors, but indefinite statements as to cheapness in consideration of quality may be freely and advantageously made. Details of price and terms of sale should be left for personal correspondence with firms which may be interested by the advertisements. A statement, for example, that prices will be quoted c.i.f. port of delivery, is altogether in order and advisable, if the advertiser is ready to quote on that basis. If he is one of those who insist on quoting f.o.b. factory, the less said about it the better.

Advertising in export journals may be said to be the first step toward more extensive publicity designed to reach the consumer. It would be manifestly absurd to advertise an article in a local newspaper or magazine in Bogota, until there was at least one store in that city carrying a stock of the advertised goods. In fact, the question of proper representation is so closely tied up with that of advertising, that it is difficult to separate them. For the purpose of this article, however, let us presume that, having selected a selling agency, or, speaking more broadly, a medium of local distribution, a manu-

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facturer desires to arrange for local advertising. What steps shall he take to insure the adoption of the right method and the selection of the best media; how prepare acceptable advertising copy and how assure himself that he will get what he pays for?

PREPARING COPY

For parts of Europe and in the larger English colonies, he may utilize American agencies, some of which have facilities for handling advertising in those countries, or he may employ the services of local agencies in each section; but for other countries, and, perhaps, even in those mentioned, he is likely to obtain better results through conference and co-operation with his agents or principal customers in each section. This does not mean that he must always be governed by their advice in the preparation of copy nor, still less, should he give them carte blanche to assume entire control of the work, until convinced that his authorized distributors have a full and adequate knowledge of the nature of the goods, are fully informed regarding the manufacturers' policies, and know how to advertise.

A good salesman may be, and often is, a poor judge of advertising. A successful merchant is not, necessarily, expert in the use of printers' ink as a sales producer. It is because so many lack these qualifications that there exist and flourish expert agencies specializing in this one branch of "business getting." A manufacturer who has had many years' experience has found that the best method is, first, to prepare his printed matter for foreign circulation, whether in the form of catalogues, pamphlets, circulars or in newspapers and magazines, and then to submit the material to his foreign distributing agencies for their criticism and suggestions. Changes are then

made if they appear to be justified or backed by good reasons, adhering, however, as closely as possible to the original copy which has proved its value through actual use in this country. He has found that the omissions or additions suggested are usually of a minor nature, readily made, and that they generally add to the "pulling" quality of the advertising matter in the territory for which it is designed.

This system of working with a representative has a twofold result: the manufacturer obtains a clearer insight into the peculiarities or what he may deem the eccentricities of the foreign market, while the representative, instructed in the selling appeal of the article to be marketed, absorbs some, at least, of the manufacturer's enthusiasm and, eventually, appreciating the value of American advertising methods, is better able to suggest modifications which may adapt them to local conditions without changing them unnecessarily.

NEED FOR DIRECT SUPERVISION

Attempts to make direct arrangements with newspaper or magazine publishers in many foreign countries, especially in sections where reliable information as to the nature and extent of their circulation is difficult to obtain, have usually proven unsatisfactory. In many parts of South America, which may be selected as representative of other sections whose population is scattered and where the percentage of intelligent readers is comparatively low, newspapers are frequently little more than organs used for purpose of propaganda in the interest of political parties. There are, of course, notable exceptions. *La Nación* and *La Prensa* of Buenos Aires, the *Jornal do Brazil*, published in Rio, and a number of others issued in the same cities as well as in a few of

the chief commercial centers of other South American countries, are such exceptions. Some of these papers have American representatives with whom business may be done as it is done with publications in the United States. In the smaller towns, and even in some commercially important cities, a large proportion of the newspapers and magazines do not even compare favorably with many of the little local papers published in small country towns in the United States.

In addition to their slight importance and limited circulation, which makes them of doubtful use for advertising purposes, their business methods generally leave much to be desired. As a rule, they seem to have no set prices for space but charge as much as they think the traffic will bear. They are very lax about submitting proofs, in following instructions as to arrangement of copy, and in returning cuts. Copy is usually printed on very poor paper which requires the use of line cuts or, at best, coarse half-tones for illustrations. Patent medicines are prominent in their advertising columns, although there appear, in many small local newspapers, advertisements of a number of well known American specialties, such as safety razors, typewriters, cash registers and other articles in the manufacture of which the United States excels.

Under the circumstances, there is evident need of an agent "on the spot." The conditions under which he undertakes his task must be determined by

the manufacturer. The latter may assume all costs of advertising, divide them with his agent or distributor, or incorporate in his contract with his agent a stipulation requiring him to assume all responsibility for a certain amount and kind of advertising in return for exclusive selling rights or other concessions.

Advertising in foreign countries by means of circulars, by posters placed in public conveyances or along the highways, by samples or by any of the several methods whose efficacy depends so largely upon the kind of merchandise to be sold, the location, size and intelligence of the buying public and the amount of money available for the purpose, are all factors which enter into the problem. Any or all of them may be used under proper conditions and are being used by experienced exporting houses which know their value and, at the same time, appreciate and guard against the possibilities of non-productive and wasteful expenditure of money and effort.

Other phases of advertising for export business cannot be discussed in the space at my disposal. I can only repeat that there are two prime essentials in conducting an advertising campaign in foreign countries. First, the establishment of distributing agencies before attempting to reach the general public, and, after that is accomplished, the necessity for close supervision by intelligent and responsible agencies, preferably located in the markets whose trade is sought.

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Book Department

SEYMOUR, CHARLES. *The Intimate Papers of Colonel House*. Vols. 2. Pp. 508, 471. Price, \$10.00 Boston: Houghton Mifflin Company, 1926.

Charles Fox said that no man could be as wise as Lord Chancellor Thurlow looked. One wonders whether anyone could be as sagacious, persuasive, influential, foreseeing, ingratiating and confidence-provoking as Colonel House admits himself to have been. Still, the evidence is there. Are there not letters, telegrams and telephone messages from the Mighty, and innumerable conferences with them? Did he not have the use of the British Foreign Office code so that he could communicate directly with Grey? Was all or any of this importance due to House himself; or was it because he was known to have the ear of a rather inaccessible man? In whose mind was the source of the ideas and efforts which mark the Wilson administration? The book leaves no doubt of House's answer to these questions. Is it a case of the conduit mistaking itself for the reservoir? If Mrs. Wilson had permitted the publication of the President's end of the correspondence, there might have been a solution of the problem; but we have only House's interpretation of what Wilson said and thought. Yet, before judging him too severely, two things are to be remembered: The President reposed immense confidence in him; and before 1913, he had already impressed himself upon men not too easily deceived. This was no mere vain go-between, but an acute, resourceful and attractive man with uncommon vision. After all, whoever was the protagonist, the book does tell the intimate story of the long and unsuccessful effort to bring peace to Europe and to keep us out of the war.

Some readers, not too much blinded by admiration for Woodrow Wilson, will think certain rare but sharp characterizations of his mental and moral qualities not the least valuable things in the two volumes.

DAVID WALLERSTEIN.

STOREY, MOORFIELD and LICHAUICO, MARCIAL P. *The Conquest of the Philippines by the United States, 1898-1925*. Pp. ix, 274. New York: G. P. Putnam's Sons, 1926.

The authors of this volume state in the first sentence of their preface: "This book has been prepared in order to lay before the people of the United States the facts relating to the conquest of the Philippines." Later in the preface Messrs. Storey and Lichauco declare that it is the purpose of the volume,

to show how the American people were led by false statements and systematic suppression of the truth to believe that the Islands came into their possession 'unsought by the fortune of war,' and that, in consequence, they became responsible for the government of the Filipinos in the effort to fit them for independence, and that they have since been governed for their own benefit and not for America's, while as a matter of fact their conquest and retention were due to a comparatively few men who, caring nothing for American principles or the interests either of the Filipinos or of their own countrymen, have sought to make money for themselves at the expense of both.

Most Americans forty years of age or more and all students of American history would recognize in these statements the spirit of the Anti-Imperialist League, even though one of the authors of this book were not the greatest figure in that courageous band of dissenters from the Philippine policy of the United States. As the reader proceeds through the first few chapters, however, the echo from the past becomes more definite. A comparison of these pages with a file of Anti-Imperialist pamphlets reveals that much of Mr. Storey's part of the book is a reproduction, with considerable editing, and some omissions and additions, of two of these documents: *Marked Severities*, by Moorfield Storey and Julian Codman (1902); and *The Duty of the United States towards the Philippines Islands, A Reply to Secretary Taft*, by Moorfield Storey (1908). Mr. Lichauco's contribution, the last three chapters(?), expresses with

reference to the present American policy in the Islands the same viewpoint that the Anti-Imperialists held twenty-five years ago. Mr. Lichauco is a student in the Harvard Law School.

These facts about *The Conquest of the Philippines* will place it very accurately for those who recall the literature with which the Anti-Imperialist League flooded the country in the days when "imperialism" was almost a "paramount issue" in American politics. Although the authors declare that their purpose is to lay before the people the facts about the "conquest of the Philippines," they have, as twenty-five years ago, selected for presentation only those facts which are, or can be made to seem, discreditable to the military and civil officers and the enlisted soldiers of the United States. These facts they have interpreted in the light of their theory that American policy towards the Philippines has been selfish and dishonest and dictated by a small group of capitalists who wish to exploit the Islands for their own personal profit. As "The Isles of Fear" sees no good, hears no good, speaks no good of the Filipinos so "The Conquest of the Philippines" is blind, deaf and dumb to all but evil in those (Republican) Americans who have formulated and carried out American policy in connection with the Islands.

Mr. Storey's charges and conclusions will not be stated in detail, as they are familiar to all students of the subject. Attention is directed, however, to several positions taken in the latter part of the book which seem to the reviewer to be misleading, to say the least. One of these is expressed in the statement that, "one subordinate official (the Insular Auditor) with a salary of six thousand dollars must have absolute control over the use which is made of taxes raised from eleven millions of people." The fact is, of course, that no taxes can be levied, collected or expended in the Philippines without the authority of the Philippine legislature, which is composed entirely of Filipinos. The veto power of the Governor-General is entirely negative and the function of the auditor is to see that no illegal disburse-

ments are made. It is also implied that American officials in the Philippines possess power which is not subject to constitutional limitation. Nothing could be further from the truth, as the Organic Act of the Philippines limits all of the officials of the government just as the constitution of a state does state officials. Finally, from the legal as well as from the political viewpoint, the assertion that President Coolidge's famous reply to Speaker Roxas constituted a usurpation of Congressional policy is without the slightest foundation in American constitutional law or practice.

Despite the blind partizanship of this book, however, it is perhaps well that it should be given to the American people at this juncture of American-Philippine relations. If the views of Mr. Storey were shared by few of his countrymen, they were and are held by most politically minded Filipinos; and if the Philippine insurrection, "revolution", they call it, is a half-forgotten incident for most Americans, it is still the outstanding event in Philippine history. An appreciation of these facts is essential to a real understanding of American-Philippine relations to-day just as it was twenty years ago.

RALSTON HAYDEN.

MANNING, WILLIAM R. *Diplomatic Correspondence of the United States concerning the Independence of the Latin-American Nations*. Vols. 3. Pp. xxxii, 1-665; xxix, 666-1427; xxviii, 1428-2228. Price, \$15.00. New York: Publications of the Carnegie Endowment for International Peace, Oxford University Press, 1925.

This publication was undertaken by the Carnegie Endowment at the suggestion of Dr. Alejandro Alvarez, a distinguished Chilean publicist, and the work has been carefully and ably done under the direction of Professor Manning, a well-known authority in the field of Latin-American relations. The dispatches and documents here collected for the first time cover the years 1809-30. While many of these papers were published in the old folio series of *American State Papers, Foreign Relations*, now scarce

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and inaccessible to many students, and some in contemporary periodicals and Congressional documents, the major portion of them have never been printed and are now copied from the original manuscripts preserved in the archives of the Department of State.

The documents are arranged by countries in fourteen groups. "Communications from the United States" fill the first 315 pages. Then follow the communications from the Latin-American countries and from five European countries which were concerned with the revolt of the Spanish colonies, namely, France, Great Britain, the Netherlands, Russia, and Spain. The countries are arranged alphabetically and the documents under each country are printed chronologically. A list of documents prefixed to each volume and a fairly full index at the end of the third volume facilitate the use of the material. In view of the fact that the volumes deal so largely with the subjects of neutrality, intervention, independence, and recognition, it is unfortunate that none of these words appears as a main heading in the index.

The recognition of the Latin-American republics, which drifted into independence as the result of the Napoleonic upheaval, was one of the most important questions of foreign policy that this country ever faced. The way in which Presidents Madison and Monroe dealt with the international situation, which was of great complexity, set important precedents and gave us our best known and most characteristic foreign policy. The Rush-Canning correspondence, which led directly to the enunciation of the Monroe Doctrine, is reproduced in full.

In thus making available to the publicists and students of both North and South America such a complete series of documentary material on a period of surpassing interest and importance, the Carnegie Endowment for International Peace has rendered a notable service. On no other like period or topic in American diplomacy has the important source material been so fully and satisfactorily placed within reach of the student.

JOHN H. LATANÉ.

KELLOR, FRANCES and HATVANY, ANTONIA.

The United States Senate and the International Court. New York: Pp. xix, 353. Thomas Seltzer, 1925.

In 1924 Miss Kellor published a volume on *Security against War*, in which she discussed "the history of the management by the League of Nations of the settlement of international controversies." The present volume is announced as continuing this study and indicating "the position of the United States in relation to the system of pacific settlement established under the League of Nations, of which organization the Permanent Court of International Justice forms a part."

It cannot be said that the author has given us in any sense an impartial study of her subject. Indeed, so strong is her bias against the League of Nations that, in spite of the valuable accumulation of information concerning the court and its functions which the volume contains, the picture that it presents, taken as a whole, is far from a true one. The method of handling the subject is that of a lawyer's brief and the conclusions reached seem rather to have been formed in advance of the evidence.

The successive chapters, excluding the two last, deal with the organization of the court, the nomination and election of judges, the jurisdiction of the court under the Statute and under treaties, advisory opinions, the law to be administered by the court, and sanctions. In these chapters, in spite of many misinterpretations, the material is well arranged and will be useful to many readers for whom the works of Fachiri and Bustamante are too technical.

Following this general study of the court, the various proposals submitted to the Senate are set forth and criticised in respect to the obligations which they entail for the United States. The conclusion is reached that the United States should affiliate with the judicial functions of the court, by way of fulfilling the pledge of the Republican party in 1924, but not affiliate with the political functions of the League of Nations, which the party is equally obligated to avoid.

The eight annexes to the volume con-

tain appropriate and useful documentary material.

C. G. FENWICK.

HAYES, CARLTON J. H. *Essays on Nationalism*. Pp. 279. Price, \$3.00. New York: The Macmillan Company, 1926.

We have become so accustomed to viewing nationalism as a natural and inevitable phenomenon of the social life of man, that it is almost a shock to the average man to be told that it is, after all, a comparatively recent development in world history, and not necessarily one which we need expect will be with us forever. Nationalism, according to Professor Hayes, is the modern union of two very old things—nationality and patriotism—and is a complex emotion which, unless abated or modified, bids fair ultimately to destroy all civilization.

We have here the work of a scholar, written for the average man. Professor Hayes has taken the more familiar aspects of world history and has considered them from the standpoint of nationalism. The result is a very readable volume which is astonishing in the weight of evidence it piles up against nationalism. It is the sort of thing that every undergraduate (and every other citizen, for that matter) ought to read as an antidote to the blindly patriotic tosh which is pumped into him at every pore.

It must be said, however, that Professor Hayes evidently feels too strongly on the subject to be quite impartial and objective about it. His style is vivified with a tinge of irony which occasionally degenerates into bitterness. He has at times, one feels, utilized his material rather unfairly and one-sidedly to press home a point. And he concludes with a homily which is reminiscent of the Chautauqua platform; he even speaks of "right-thinking people"! In a word, Professor Hayes seems to have started with a thesis and to have collected his material afterward. But he has done a remarkably good job of it.

J. H. LEEK.

REDFIELD, WILLIAM C. *Dependent America*. Pp. 267. Price, \$2.50. Boston: Houghton Mifflin Company, 1926.

In this book there is presented to the general public a concrete argument against

the claims of the "reactionary" and "irreconcilable" groups in our political system. International relations are shown to be fundamentally economic; and the failure to appreciate this fact has led to misunderstanding among nations:

"The book is written in the belief that if the average citizen can be made to see and feel the need that every nation has of every other in a life which is full of mutual ties, a deep and strong foundation for peace will have been laid." (Preface.)

To establish this aim, the author investigated the legitimacy of the claims of those who delight in the so-called "self-sufficiency" and "separate interests" of the United States. A large number of raw materials which enter into the varied activities of our everyday life are discussed, showing the dependence of the United States upon outside sources for these supplies. Most of the book is contained within these chapters, each embracing a group of materials related to distinct phases of our life.

After reviewing this array of deficiencies, the author attempts in his conclusion to show that the internationalism which is recognized in the spheres of science, art, music and literature, is being invaded by industry, commerce and finance. Misdirected and narrow nationalism is properly scored, but there is no attempt made to consider the effects of age-old racial prejudices and the pinching of pocket-books upon this Utopian economic and industrial internationalism. A noteworthy bibliography on raw materials is appended.

ROLAND L. KRAMER.

CARROLL, E. MALCOLM. *Origins of the Whig Party*. Pp. viii, 260. Price, \$2.50. Durham: Duke University Press, 1925.

This well-documented monograph is an admirable example of painstaking research and discriminating use of historical sources. It is based, in the main, upon the critical study of newspaper and unpublished manuscript material; and, for good measure, comments of European travelers upon parties in the Jackson period are frequently thrown in. The result is a scholarly contribution to the history of American parties which is at once fresh,

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interesting and even illuminating. This is especially true of the pages narrating the *rapprochement* of Webster and the Democrats immediately following Jackson's nullification proclamation in 1833.

Beginning with the campaign of 1824, the essential continuity of the Federalist, the National Republican, and the Whig parties appears clearly in successive chapters, which explain John Quincy Adams' failure to create a strong party during his administration, and which analyze the factors that weakened the National Republicans in 1828 and 1832 and eventually led to the rise of new leaders, to the democratization of party organization and methods, and, finally, to the triumphant election of Harrison in 1840. Throughout the period between 1828 and 1840, the "Jacksonian Democracy," in the author's opinion, "was perhaps the most important influence in shaping the character of" National Republican and Whig opposition, whose chief problem at each succeeding stage seems to have been the determination of ways and means of regaining power.

Although the conclusions of the author on most important points differ slightly, if at all, from those of previous historians who have made less intensive studies of Whig origins, the monograph is a worthwhile addition to the literature of American party history, despite all too frequent typographical errors and some technical shortcomings in the elaborate bibliography. Four election maps are also included in the book.

P. ORMAN RAY.

CIPPICO, COUNT ANTONIO. *Italy, The Central Problem of the Mediterranean*. Pp. 110. Price, \$2.00. New Haven: Published for The Institute of Politics by the Yale University Press, 1926.

Although this small book is a grotesquely nationalistic presentation of the present situation of Italy in the Mediterranean, it may be very profitably read by any one who wishes to know more about fascism, its origin and triumph, as well as its internal and external policies. The difficulties of Italy, which fascism frankly faces in order to overcome, are not exaggerated. Truth to tell, they are so grave

that they are hardly capable of exaggeration. We get a lively hint of them when we think of a waxing over-population, made doubly threatening by the blocking of the older outlets of emigration. It is at this point, more particularly, that the policy of the United States impinges on fascism. However, Italian patriots would prefer to have the surplus man-power of their country unloaded not on the Western World but on the near-by Mediterranean coast-lands. Unfortunately, these rest firmly in the hands of Great Britain and France. Is this humiliating situation to be accepted with resignation or is an effort to be made to change it? The answer of fascism under its brilliant leader, Mussolini, is that, preparatory to every other measure, the Italian people must develop through discipline a soul hard as steel. This has been already so far achieved that every variety of domestic opposition has been completely crushed. What remains is for the black shirts to turn their consolidated energy outward toward the Mediterranean and to face the situation there presented with calm courage and a relentless vigor ready to meet whatever destiny may have in preparation, not excluding the ultimate test of war.

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VINOGRADOFF, SIR PAUL. *Outlines of Historical Jurisprudence. Volume Two; The Jurisprudence of the Greek City*. Pp. x, 316. Price, \$7.00. New York: Oxford University Press.

The reviewer of the above work was so impressed with its importance that he wrote a review of seven pages which was returned for condensation. Accordingly I will restrict my comment to the important contribution made by Professor Vinogradoff to the understanding of Greek substantive law.

There was the sharp distinction between crime and tort which is characteristic of modern law. Penal action was instituted by an accusation in writing. Civil action for damages was instituted by appeal to justice. But in both cases the trial started by an action brought by a citizen, not by public prosecutors. The party bringing the action made the choice whether he

would institute criminal proceedings which, if successful, would bring punishment and dishonor to his enemy, but with danger to himself if unsuccessful; or to bring civil proceedings which, if less satisfactory to his wounded honor, might yield financial compensation. There was an elaborate development of penal actions against public officials and against citizens charged with political crimes, some of which could start with impeachment in the assembly, followed by formal trial in the courts. There was also a long list of penal actions for offenses against the family. There was no elaborate development of penal actions in cases of ordinary crime. Physical and moral injury might generally give rise to civil suits for compensation, but in extreme cases of contumelious conduct and intentional insult, to penal actions, resulting in heavy fine, confiscation, infamy, or death. Strangely enough, from the modern point of view, murder and manslaughter were classified not with crimes but with torts. The relatives or clansmen of the victim were expected to proceed against the slayer or enter into a bargain which would let him off without further punishment. The origin of the Greek city in a federation of related clans accounts for this curious survival. In cases of premeditated homicide, however, perpetual exile was the only means of avoiding capital punishment.

If the law of crime carried distinct survivals of tribal law, the same may be said of the law of property. Corresponding roughly to the artificial division of the English common law between real and personal property, derived from the feudal system, the Greeks recognized a more natural division between the kinds of property which in the tribal period were regarded as personal property, and the allotments of land which the city at its settlement assigned to its citizens, which were still regarded in a sense as communal property entrusted to the members, and which might at the will of the state be expropriated. Rome developed the idea of the absolute property of the citizen, but in Athens there was the conception of relative property rights. The system of registration of land was so perfect that

there was no opportunity for the Roman principle of prescription to grow up. This notion of the public character of the allotments suggested the frequent use of confiscation as a means of repression in political struggles as well as in criminal justice. The system of registration served not only to prove private rights but to facilitate the application of public sanctions, even to the extreme measure of redistribution of the land. A criticism of Greek law might be that vested interests were not adequately protected, while a criticism of American law may be that social interests are not adequately protected, especially through the inexcusably narrow definition of public use in eminent domain. But the reviewer, not the author, is responsible for this "aside" on American law.

CHARLES H. MAXSON.

HAMILTON, WALTON H., and WRIGHT, HELEN R. *The Case of Bituminous Coal*. Pp. 310. Price, \$2.50. New York: The Macmillan Company.

In achieving a merger between coal and comic opera, the authors of this volume have performed a feat that merits tribute. After Miss Wright's effective work for the United States Coal Commission and her experience with the ponderous and often dull materials that passed before that body, the authors were doubtless quite willing to run the risk of appearing flippant if by using literary strategy they might lighten the discussion of a heavy subject. The style of the book gives it, perhaps, along with a pleasant lightness of touch, a possible assurance in interpretation at points where the highly complicated nature of the data would lead one to expect doubt. However, these qualities are largely literary rather than substantial and should not obscure the credit due for setting forth the confusing intricacies of this highly muddled industry so readably and yet with so much thoroughness.

The "breakdown of competition" is a motif which either as major theme or undertone runs through the score of every chapter. At various points of the discussion the suggestion intrudes that perhaps the authors are using this unhappy industry as a

vehicle for conveying a critique of competition in general. Obviously, inferences concerning presumptive evils of competition in general would be too much of a by-product to compress within the limits of a two-hundred page volume devoted to a single industry. The troubles of bituminous coal constitute by themselves a sufficiently large and important subject to preempt the attention of both authors and readers.

As emphasized both in the preface by Doctor Moulton and by the authors themselves, the book is an interpretation rather than an approach to the solution of the bituminous problem. Judging from such contacts with the industry as the reviewer has had, the work of interpreting and criticizing appears to have been extremely well done—so well that everyone who reads the book will look forward eagerly for the promised volume in which an attempt will doubtless be made to push the problem nearer to solution.

Obviously, it is easy to suggest studies and very difficult to make them, but the hope may be ventured that in the forthcoming volume commitment on the question to what extent the troubles of bituminous constitute a problem in public policy and to what extent business must find its own way out of the morass, may be deferred until conditions and possible causes, associated with such successful operations as may be found, are given most thorough consideration. Hamilton and Wright are of course aware of numerous oases in this desert of general confusion. To the extent that it may prove possible to expand these oases into larger areas of successful tillage (including in this success the worker, the consumer and the investor)—to that extent the industry itself will pass out of the category of backward and inefficient business.

As one approach to the question how can a structure of reasonably efficient operation be built, it would be helpful to have an analysis of the industry from the standpoint of corporate relationships and their influence on the stability of production and distribution. For example, what sort of results would be shown by an analysis of operations carried on by subsidiaries of large industrial corporations, or by concerns operated under continuing contracts with such cor-

porations? Such a study, coupled with a study of those companies selling in the general market that have the best record of stable and wholesome conditions together with profitable operation, might reveal a way by which other operations could be improved. Considering the political, economic, and emotional obstacles in the way of overhauling the whole industry, any stimulus to improvement however gradual should not be lacking in appeal.

Praying the indulgence of the authors for anticipating the forthcoming volume, the reviewer again commends the present volume to all thoughtful readers. From the standpoint of readability and sustained interest, it would be difficult to improve on this story of bituminous coal.

WILLARD E. HOTCHKISS.

CHASE, STUART. *Tragedy of Waste*. Pp. 296. Price, \$2.50. New York: The Macmillan Company, 1926.

This book brings together within 280 pages an extraordinary amount of statistical material in proof of the fact that the ratio of waste in American production is fifty per cent. Much of this material is familiar and the author's thesis is not new. His presentation of evidence is, however, impressive.

Starting with the war experiences, he begins his discussion by the statement, which is amply proven, that the physical production of commodities by weight during the war period increased from 112—1911—13 taken as 100—to 125 in 1918. At the same time there was a notable decrease in the number of persons employed of 10,000,000 out of 40,000,000 normally employed. In other words, 30,000,000 producers turned out more food, shelter, clothing, etc., than 40,000,000 had ever done before.

Starting from this demonstration of the possibility of economy with the proper organization and direction of effort, the author standardizes national waste under four general headings: (1) waste in consumption, (2) idle man power, (3) waste in production, (4) waste in distribution, and he adds a 5th minor division under the head of waste in national resources.

Especially interesting is the criticism of advertising. He takes Mr. Edward Bok's estimate of \$1,284,000,000 annual expendi-

ture for advertising, representing the wages of over 600,000 workers, of which he estimates that ninety per cent is waste.

National advertising for the education of the consumer, if conducted by some impartial and scientific body, might conceivably provide a great channel for eliminating wastes in consumption. But nine-tenths and more of advertising is largely competitive wrangling as to the relative merits of two undistinguished and often indistinguishable compounds—soaps, tooth powders, motor cars, tires, snappy suits, breakfast foods, patent medicines, cigarettes.

Advertising of commodities, as he shows, is very largely directed toward the substitution of the article advertised for some other article already in possession of the field; for example, the advertising of milk reduces the consumption of meat as does also the advertising of cheese; the advertising of artificial silk results in the displacement of cotton goods. The advertising of rugs results in the displacement of carpets, the advertising of aluminum ware results in the displacement of enamel ware.

The analysis of idle man-power is the most convincing portion of the book. This is considered under five heads: Intermittent employment, seasonal unemployment, unemployment due to business cycles, residual unemployment and unemployment due to labor turnover.

Mr. Chase's discussion of waste in production follows closely the study of the Federated American Engineering Societies which included six industries: building, textile, printing, men's clothing, boots and shoes, and the metal trades. Comparing the performance of the best plant with that of the average plant, the loss in the building industry was over fifty per cent and in the metal trades three hundred fifty per cent. Of this waste, from fifty to eighty per cent must be assigned to mismanagement, and the balance divided between labor and outside causes. In the Cleveland building trades there are 4000 contractors, when not 400 are needed to do the work.

Leaving this field of production proper, the author makes an impressive showing in the field of depression. In 1920, quoting Mr. Sidney A. Reeve, production effort accounted for 49.6 per cent and commercial effort 50.4 per cent. In food \$20,000,-

000,000 was paid by the consumer, of which the farmer and the food manufacturer received \$10,000,000,000, and the balance went to transportation, jobbers and retailers.

The retail situation shows the greatest loss. There is in the country over one retail store for every twenty-five families, and two-thirds of all the expense of running these stores is characterized as loss and waste. In other words, for each necessary store there are two superfluous ones, and to wind up the horrible showing, there are 20,000,000 cook stoves, 20,000,000 hand laundries, and 10,000,000 furnaces all wasteful of coal, oil, gas and supplies.

Space does not permit further summary of this massive statistical showing of national waste. We must, however, accept the author's pessimistic conclusions with some reservations. He sees no way out, no remedy. He even doubts the value of his work as an aid and introduction to reform. The task of industrial reconstruction or rather transformation has been too rapid in the last fifty years. Industrial and social maladjustment is the result. So much must be conceded. Many influences are now at work, however, some of which are enumerated by the author, to improve this condition. Most important is the recognition that waste exists. That this recognition has been made, the author's summary and the results of careful studies of the different fields which he surveys in his work is carefully documented as to its evidence. In every line, this recognition of waste is leading to the elimination of waste.

The author has painted a gloomy picture and leaves us with not one single ray of hope. In this he is too pessimistic. In an ideal, completely socialized commonwealth, controlled by an immortal and beneficent despot—a sort of denatured Mussolini—with none of the weaknesses of human nature stated above; a world organized according to the most advanced ideas of economy, efficiency and social welfare, the "Tragedy of Waste" could be prevented. But with human nature as it is, and with industrial democracy recognized as that form of organization which is best suited to the development of individual powers and talents, there is no reason to take such a pes-

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simistic view of the future. Waste exists. Its existence is recognized. The means of its elimination, or at any rate its material reduction are available and these means are being employed on an ever increasing scale. It is too much to hope that waste will ever be eliminated, but it is reasonably certain that it will be greatly reduced.

E. S. MEAD.

MENDELSON, SIGMUND. *Saturated Civilization*. Pp. 179. Price, \$1.75. New York: The Macmillan Company, 1926.

"The course of human progress, whatever form it takes", states the author, "is marked by alternating stages of rise and decline, acceleration and retardation, ferment and exhaustion." Civilizations develop, rise to heights and decay. Applying this thesis to the present day, he believes that "economically, socially, and politically, evidence of overdevelopment and overstimulation is quite pronounced." In his opinion, the saturation point has been, or soon will be, reached. The contribution made by the present age to human progress has been the uplift of labor, giving it dignity and power. The detailed evidence of present-day decay leaves much to be desired from the viewpoint of the trained economist or sociologist; many of the truths presented appear to the reviewer but half truths. The general theme, however, is very well developed, and, while not entirely new, well repays the time spent in reading.

WILLIAM W. HEWETT.

BARNES, HARRY ELMER. *The New History and the Social Sciences*. Pp. 604. New York: The Century Company, 1926.

In this volume Professor Barnes has sought to bring the "social" sciences—history, geography, psychology, anthropology, sociology, economics, political science, and ethics—within the limits of a single point of view. It is a vast field, but Mr. Barnes is an intrepid explorer, as well as a facile writer.

Social intelligence has long been accumulating in out of the way corners, and the world has been waiting, one may say, for a conspectus in which the labors of detached

and isolated scholars might be seen in their relations to one another, and in their relations to human welfare. Mr. Barnes' survey of the social sciences meets this need. It is safe to say that no one else has performed the task so well, because no one else has performed it at all.

This volume is no mere attempt at a classification of the sciences. Neither is it, as one might possibly have expected, an analysis of the logic and the methods of the social sciences. Mr. Barnes does not go in for analysis. On the other hand, he is strong for synthesis. In the wide horizon which this volume surveys we meet men and things, actual life. To be sure, in the timeless sequences to which the new history aspires, both men and things do tend to become more or less abstract. Plato and Coolidge, St. Augustine and Upton Sinclair, like the figures in a carnival, are likely to jostle one another on the same page. This is because they have become, for the purposes of the author, symbols for ideas.

One might well imagine that a book which ranged over the whole of human history and covered the literature of all the social sciences might have its dull moments. This is not so. Pages that might otherwise drag invariably furnish occasion for alarms and excursions, and history is enlivened by contemporary references; as, for example, when the author blames St. Paul and St. Augustine for the notorious strictness of our present day *sex mores*.

Professor Barnes not only writes well, but he has what so many historians lack, an almost journalistic sense for news. Whatever the new history turns out to be, it is bound to be newsy.

In this survey of the social sciences, sociology, as over against history, has decidedly the best of it. Nearly everything in sociology is good, and nearly everything in history is bad.

It is curious, however, that Mr. Barnes, who is so radical an historian, is so conservative as a sociologist. He has almost nothing to say about the "new" sociology, and he does not even seem to have heard of either Simmel in Germany nor of Durkheim in France.

ROBERT E. PARK.

EDIE, LIONEL D. *Economics: Principles and Problems*. Pp. xx, 799. New York: Thomas Y. Crowell Company, 1926.

Within the past two decades the literature of economics has been enriched by a great number of monographs, technical articles, inductive studies and statistical material which is the result of special researches into particular fields and problems. The avowed object of Professor Edie's new economics text-book is to integrate this material with the older body of classical theory. As the author puts it: "At present, economics is flooded with the piecemeal literature of the many sided developments of the science. Out of this inchoate mass, a synthesis has been made."

The book is, in fact, an encyclopedia of economic knowledge. Here is digested and summarized a great number of recent reports dealing with such matters as the national income, valuation, prices, business cycles, consumption, the movement of real wages, interest rates, international exchange and monetary problems, and so on. This is coupled with a statement of the doctrines of production, value, distribution, etc., as usually found in orthodox treatises. The influence of such men as Mitchell, Veblen, Hamilton, Friday, and other "institutional" economists is clearly revealed, as well as that of such organizations as the National Bureau for Economic Research, the Institute of Economics, and the Pollak Foundation.

But the mere placing of this inductive material into juxtaposition with the older body of economic principles hardly constitutes a synthesis, and here is a weakness of the new volume. The connection between particular problems and the previously presented principles, and the relation of the inductive data thereto, is often obscure. The work is lacking in continuity and unity. These difficulties, coupled with the enormous mass and scattered nature of the material covered, are likely to make the book somewhat unsatisfactory for use as a text in introductory courses in economics.

Professor Edie has done pioneer work here, which is of great value in showing the varied extent and great range of the subject

of economics in its more recent developments, and it should prove stimulating and suggestive to subsequent writers, but a genuine fusion of modern economic literature into a consistent body has yet to be made.

RAYMOND T. BYE.

THOMPSON, CARL D. *Public Ownership*. Pp. 445. New York: Thomas Y. Crowell Company, 1925.

Although secretary of the Public Ownership League of America, the author of this volume presents it as an unbiased survey of the public ownership and operation of utilities, chiefly in America, but also in foreign lands. "We are not concerned," he declares in his introduction, "with the advocacy of public ownership at all. It is what the cities, states and nations of the world have done and are doing that concerns us here." Judged by this self-imposed standard, the work is far from satisfactory. It is a somewhat sketchy description of the status of public ownership throughout the world, the facts being presented in such a manner as to make the most favorable case for increased governmental activity. The final chapter is entitled: "Objections to Public Ownership Considered." Twenty different objections are presented, and each in its turn refuted to the author's satisfaction.

Mr. Thompson uses an extremely broad definition of public utilities. He includes almost every service performed by a public agency from the public schools to the weather bureau. It may be in part because he attempts to cover such a wide field that he fails to do a more satisfactory job. But he has managed to include within the covers of a single volume a vast amount of information concerning the public ownership and operation of utilities, and his contribution cannot be ignored by any one interested in the subject.

AUSTIN F. MACDONALD.

QUIETT, GLENN C. and CASEY, RALPH D. *Principles of Publicity*. Pp. vi, 420. Price, \$3.00. New York: D. Appleton and Company, 1926.

LONG, JOHN C. *Public Relations*. Pp. v,

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248. New York: McGraw-Hill Book Company, 1924.

BERNAYS, EDWARD L. *Crystallizing Public Opinion*. Pp. vi, 218. Price, \$2.50. New York: Boni and Liveright, 1923.

LEE, IVY L. *Publicity*. Pp. 64. New York: Industries Publishing Company, 1925.

Metamorphosis of the press agent into the public relations counsel, and the consequent development of a new profession with public-spirited motives and a keen social consciousness is seen by the authors of these four books which are among many recent volumes on the subject. Standards of publicity have improved during the last few years; there is little doubt of this. Yet it is questionable whether they have reached the high place accorded by these writers.

The chief controversy concerning the ethics of publicity centers around its use in the newspaper. Although granting that to be so used ethically, newspaper publicity must present the facts, they hold that its purpose is to create a favorable impression toward the publicity-seeking institution or organization. The purpose of the newspaper, on the other hand, is to present facts objectively and without bias. Because of his point of view, therefore, the public relations counsel is in danger of becoming a propagandist.

With a special point of view, the publicity man is tempted to offer only those facts which bear out his conclusion or to reach unwarranted interpretations. When he reaches this place, he is no longer a dispenser of information—an educator—but a propagandist, a special pleader, an insidious force.

Yet, without doubt, there is a place for the publicity man. It should be his job to furnish neglected information to the public through the various media at his command.

The trend of opinion based on these facts he should leave to the public, rather than trying to control it for his advantage. That is education, and the right-minded public relations counsel is an educator.

These four books are a decided step toward a better type of publicity. They have set forth the facts of the profession with frankness. They are an attempt to raise standards. The authors deserve the thanks of those who are interested in education and public opinion.

LESLIE HIGGINBOTHAM.

HARRIS, NORMAN DWIGHT. *Europe and the East*. Pp. 677. Price, \$5.00. Boston: Houghton Mifflin Company, 1926.

This book tells the story of the attempts of the Western Powers to impose their control upon the industrially retarded peoples of the East. The chapters deal with European efforts at domination throughout Asia and sketch the modern political history of Turkey, Persia, Central Asia, India, Tibet, Indo-China, Siam, China and her outlying provinces, Japan, Korea and some of the islands of the Pacific. The author thus brings within the covers of a single book the description of imperialistic ventures throughout the world's most populous continent and summarizes in convenient form the main aspects of one of the most significant movements in modern times. Professor Harris believes it to be imperative that the West should by honest dealing win back the lost confidence of the East, but that it would be a mistake for the East to reject precipitately the assistance of the West. Friendly and intelligent co-operation between the two is necessary. The large amount of material is admirably presented and an excellent bibliography is included.

BENJAMIN H. WILLIAMS.

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